

APPENDIX K

ECONOMIC IMPACT REPORT

CB Richard Ellis Consulting/Sedway Group (CBRE Consulting)
La Costa Town Square, Carlsbad, Economic Impact and Urban Decay Analysis
October 8, 2008, and Addendum February 10, 2009

October 8, 2008

Mr. Dietmar Schott, Esq.
La Costa Town Square LLC
8799 Balboa Ave., Suite 270
San Diego, CA 92123

Re: La Costa Town Square, Carlsbad, Economic Impact and Urban Decay Analysis

Dear Mr. Schott:

CB Richard Ellis Consulting/Sedway Group ("CBRE Consulting") is pleased to present this letter report summarizing our research and analysis pertinent to the planned retail center within the La Costa Town Square project in Carlsbad, California. We understand that the development encompasses 81.8 acres, which will be subdivided into four parcels including a commercial parcel, a residential parcel, and two multifamily residential parcels. Our analysis focused on the commercial parcel, and in particular, the proposed community shopping center. For presentation purposes, the retail component of the project is referred to in this report as the "Center," or "La Costa Town Square shopping center."

An Environmental Impact Report (EIR) for the La Costa Town Square project is being prepared and coordinated by EDAW Inc. To support this effort and comply with California Environmental Quality Act ("CEQA") Guidelines, CBRE Consulting was asked to prepare findings regarding the potential for La Costa Town Square Shopping Center to cause urban decay in the surrounding market area. The related analysis and conclusions are discussed in this letter report. A number of supporting exhibits are also included in Appendix A.

The development program analyzed for the proposed Center included an approximately 98,497-square-foot department store, a 65,000-square-foot supermarket, and a 53,000-square-foot cinema as presented in Exhibit 1. Subsequent to conducting the initial Center analysis, CBRE Consulting received a revised development program from La Costa Town Square LLC with a lower total square footage. The revised site plan also includes office buildings rather than the proposed cinema. Table 1 below presents a summary of the two development plans, along with comparisons of the space allocations by use, which have been reduced in most cases. The two exceptions are that 55,000 square feet of office buildings are currently proposed – roughly equivalent to the cinema size in the initial program – and a second 3,500-square-foot service station has been added. Overall, however, the initial site plan presented an estimated 285,699 square feet of retail space (excluding the cinema) while the current program includes 261,000 square feet among comparable retail categories as defined by the California Board of Equalization (BOE).¹

¹ The BOE retail categories, as described on pages 8-9 of this letter report, include Apparel Stores, General Merchandise, Food Stores, Home Furnishings and Appliance retailers, Service Stations, and Other Retail Stores. Space for Personal and Professional Services such as banks, accounting firms, salons and other services is not viewed as retail square footage in the related analysis. In addition, since the BOE does not track cinema revenues, CBRE Consulting analyzed the proposed cinema separately.

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Table 1
Estimated Square Footage Differences by Retail Category
Initial Development Program Versus Updated Site Plan
La Costa Town Square Shopping Center

<u>Store or Space Category</u>	<u>Initial Development Program Sq. Ft.</u>	<u>October 2008 Development Program Sq. Ft.</u>	<u>Difference</u>
	<u>[A]</u>	<u>[B]</u>	<u>[C = B – A]</u>
National Department Store	98,497	98,000	(497)
Grocery Store	65,000	55,000	(10,000)
Cinema Operator	53,000	0	(53,000)
General Merchandise Retailers	18,060	15,000	(3,060)
Apparel Retailers	34,000	27,400	(6,600)
Home Furnishings/Appliances	10,000	9,600	(400)
Eating and Drinking Retailers	42,700	36,300	(6,400)
Service Stations	3,500	7,000	3,500
Other Retailers	13,942	12,700	(1,242)
Personal/Professional Services ¹	24,200	23,400	(800)
Tenant Warehouse	15,000	0	(15,000)
Office Buildings	0	55,000	55,000
Total²	377,899	335,400	(38,499)
Total incl. BOE-Defined Retail Only³	285,699	261,000	(24,699)

(1) Primarily covers space targeted toward banks and other financial services tenants.

(2) Figures may not total due to rounding.

(3) Excludes square footage proposed for Office Buildings, the Tenant Warehouse, Personal/Professional Services and the Cinema Operator.

Source: Exhibits 1; La Costa Town Square LLC; and CBRE Consulting.

Since the difference in retail space between the two development plans (24,699 square feet) involves less than 10 percent of the initial development program, CBRE Consulting determined that an update to the quantitative analysis of impacts was not warranted.² Therefore, the report and exhibits are based on the larger 377,899-square-foot site plan. The implications of this approach are that:

- The prospective Center sales impacts and cumulative impacts, which are already low across most retail categories, are conservative in that the results are based on a larger retail project than is currently anticipated. Among specific categories, the cumulative Food Store impacts would be lower by an estimated \$5.0 million in 2010 if a smaller supermarket at the Center had been assumed (55,000 square feet compared to 65,000 square feet). In addition, for Service Stations, which is the only retail category with a space increase (3,500 square feet), there are no sales impacts or cumulative impacts under either development plan.
- The discussion of the proposed cinema impacts is not relevant to the revised development plan, but this information is included for consistency with the initial program.

² If the difference were in the opposite direction, with the new development program larger than the initial plan, there would likely be a different determination regarding the appropriateness of updating the analysis.

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- The smaller amount of proposed retail space decreases the estimates of La Costa Town Square Shopping Center's potential impacts on the City of Carlsbad sales tax revenues. Therefore, the related discussion in the report presents calculations under both development scenarios (see page 28).

SUMMARY OF FINDINGS

La Costa Town Square Shopping Center Projected Sales

CBRE Consulting estimates that the stabilized sales for the Center will total \$115.8 million in 2012 dollars, comprised of:

- \$36.2 million in Food Store categories;
- \$31.1 million in Apparel;
- \$19.8 million in Eating and Drinking Places revenues;
- \$10.7 million in "Other Retail" sales;
- \$7.2 million in Home Furnishings and Appliances;
- \$6.3 million in Service Station revenues; and
- \$4.5 million in General Merchandise sales

Of these sales, 90 percent, or \$104.2 million is estimated to be generated by market area residents. The remaining 10 percent of sales generated at La Costa Town Square shopping center are expected to be drawn from secondary demand originating from unspecified locations outside of the market area, (e.g., local employees who live beyond the market area, out-of-town visitors, etc.). Stabilized sales are not expected to occur during the first year of store operations, but rather in the second or third year, which is typical of new retail operations. In order to be conservative, however, the analysis assumes stabilized sales are achieved in 2012. Accordingly, all dollar figures unless otherwise noted are presented in 2012 dollars.

The analysis also estimates that \$90.1 million of the Center's 2012 sales will be taxable, and these sales will generate \$910,000 in sales tax revenues for the City of Carlsbad General Fund. The remaining non-taxable sales at the Center are mainly associated with the proposed supermarket.³

Impacts on Existing Market Area Retailers

For purposes of this analysis, the market area is defined as the cities of Encinitas, Solana Beach, and Del Mar; a southern section of Carlsbad; and portions of San Diego, San Marcos, and other unincorporated cities and areas in San Diego County.

Assuming that the new market area sales of La Costa Town Square shopping center will occur at the proportional expense of existing market area retailers, then those retailers are not expected to experience annual sales impacts upon stabilization of the Center's sales in 2012. New demand from household growth is projected to support both the Center and other area retailers. In addition, La Costa Town Square shopping center is likely to recapture sales "leakage" (i.e.,

³ See further discussion of taxable sales under the Potential Impacts on City of Carlsbad Sales Tax Revenue section on page 28.

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spending outside the market area by local residents) in several retail categories. Table 2 presents a summary of these projections from the analysis.

Table 2
Prospective La Costa Town Square Shopping Center Sales and Impacts
Market Area Estimates
2012 Dollars, in millions

Retail Category	Estimated Sales Generated from Market Area for Proposed Center	Maximum Sales Diverted From Market Area Retailers
Apparel	\$28.0	\$0.0
General Merchandise	\$4.1	\$0.0
Food Stores	\$32.6	\$0.0
Eating and Drinking	\$17.8	\$0.0
Home Furnishings & Appliances	\$6.5	\$0.0
Service Stations	\$5.6	\$0.0
"Other Retail Stores"	\$9.6	\$0.0
Total¹	\$104.2	\$0.0

(1) Figures may not total due to rounding.
 Source: Exhibits 14 and 15.

The Center's impacts on competitive movie theaters in the market area were not analyzed quantitatively because related sales data were not available from the State of California Department of Finance. However, CBRE Consulting did identify national and local trends that indicate that smaller, older cinemas have been closing due to competition from newer formats. The process is already occurring in the market area such that there are currently four remaining movie theaters. Of these, one is already expected to be redeveloped, and another is being supported through fundraising among the local community. However, these changes are happening even before the introduction of the proposed cinema at La Costa Town Square shopping center. If the new cinema at the Center creates a level of competition that leads to the closure of one or more of the remaining movie theaters, any resulting vacant space is likely to be redeveloped successfully based on the track records of other local developers who have demolished old movie theaters and built new spaces to accommodate other retail tenants.

Cumulative Impacts

CBRE Consulting identified four major planned retail developments (including the Center) within the market area and two others just outside the market area boundary that are viewed as competitive projects. If each of these centers is developed as planned, about 800,000 square feet of new retail space will compete for market area sales.

The analysis estimated the maximum interim impacts of this increase in supply and determined that up to \$46.6 million in sales could be diverted from existing retailers in 2012. Almost all of these potentially diverted sales are in the Food Stores category since two new conventional supermarkets

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and three new niche/upscale grocery stores are proposed. The calculated sales diversions are considered maximum estimates because:

- One or more of six proposed centers may not be built and operating fully by 2012;
- The food stores that open may take longer to establish the stabilized sales levels than the analysis assumes (i.e., within the first full year of operations);
- Existing supermarkets in the area offer a wide range of products and services, and consequently appear to be capturing demand associated with the General Merchandise, "Other Retail", and Eating and Drinking Places retail categories.
- To remain competitive, supermarkets and grocery stores are expected to add further niche products or services that appeal to shoppers based on convenience and selection. Some of these new offerings are likely to target demand that is outside of the traditional Food Stores category.
- Retail sales category variations of up to 3.0 percent (\$16.6 million for Food Stores) are common based on analysis of Retail MAXIM revenue figures for 1995-2005. Consequently, retail stores should expect to be prepared for this level of change in market conditions.

Future retail demand will also be generated by household growth. Within three years after the Center opens, for example, \$85.2 million in new household demand is projected, including \$10.2 for Food Stores, \$11.7 million in General Merchandise, \$8.3 million for "Other Retail", and \$3.8 million for Eating and Drinking Places. These new sales will help support the existing supermarkets and the new retailers proposed among the cumulative projects. In addition, if the cumulative sales impacts are significant enough that they lead to store closures, particularly in the Food Stores category, this demand growth will support other retailers that are likely to occupy the associated vacant space.

Urban Decay Determination

For the purpose of this study, urban decay is defined as physical deterioration that is so prevalent and substantial that it impairs the proper utilization of affected real estate or the health, safety, and welfare of the surrounding community. Physical deterioration includes, but is not limited to, abnormally high business vacancies, abandoned buildings and commercial sites, boarded doors and windows, parked trucks and long-term unauthorized use of properties and parking lots, extensive gang or offensive graffiti painted on buildings, dumping of refuse or overturned dumpsters on properties, dead trees or shrubbery and uncontrolled weed growth or homeless encampments.

CBRE Consulting's research and analysis of the market area determined that the demand for retail space has been strong. Low vacancy rates in the area are also indicative of the market's stable performance and the ability to re-tenant vacancies as they occur. Through market research and field visits, only one large vacancy (i.e., greater than 10,000 square feet) was identified, and that space has been on the market for less than one year. There are also several examples of how developers have successfully re-positioned older, obsolete spaces to accommodate new retail stores.

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If all of the six cumulative retail projects are developed by 2012 as planned, the related sales diversions could be significant enough to create vacancies among less competitive stores. Food Stores, in particular, are likely to be most affected by the new retail developments in this scenario. However, demand for retail space is expected to increase due to continued population and household growth in the market area such that any square footage that does become available is likely to attract new tenants, even if the space needs to be re-positioned for a different store format or use. Consequently, related store closures or vacancies are not expected to lead to physical deterioration so prevalent and substantial that it impairs the proper utilization of affected real estate or the health, safety, and welfare of the surrounding community. Therefore, CBRE Consulting concludes that the development of La Costa Town Square shopping center is unlikely to result in urban decay.

STUDY RESOURCES

Many resources were relied upon for this study. These include the following: quarterly market reports published by commercial brokerages CB Richard Ellis and Cushman & Wakefield; taxable retail sales data collected and reported by the State of California Board of Equalization (BOE); city and county population figures estimated by the California Department of Finance; San Diego County household projections from the San Diego Association of Governments (SANDAG); demographic and business-specific data regarding neighborhood and community center retailers in Carlsbad, Encinitas, and the surrounding environs generated by Claritas (a national provider of demographic, economic, and business data) and by CoStar (a national commercial real estate information service); data from Retail MAXIM and *Progressive Grocer* (a supermarket trade publication) were used to prepare sales per square foot estimates for relevant retail types; and corporate annual reports and 10-K filings were used to estimate the retail sales mix for the expected department store anchor at the Center. Inflationary adjustments were made as needed pursuant to the Consumer Price Index published by the U.S. Bureau of Labor Statistics.

The data sources were supplemented with interviews of: local retail real estate brokers from Cushman & Wakefield, CB Richard Ellis, Flocke & Avoyer, and Jones Lang LaSalle; local development professionals and leasing agents from Kimco Realty and Weingarten Realty Investors; and local planning and economic development officials from the cities of Carlsbad and Encinitas.

APPROACH

CBRE Consulting engaged in several tasks to conduct the market research and analysis relevant to the planned La Costa Town Square Center, as follows:

- **Field Evaluation.** CBRE Consulting conducted field research such as examining the site of the proposed La Costa Town Square Retail Center and identifying existing apparel retailers, supermarkets, and cinemas within the City of Carlsbad and nearby environs. In addition, the field evaluation included a visual examination of prevailing retail market conditions, identification of existing vacancies, and an assessment of the degree to which urban decay may or may not exist in key commercial areas.
- **Supplemental Research and Analysis.** CBRE Consulting conducted independent research focused on evaluating the retail leakage/attraction profile of the surrounding area and the

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defined market area. As part of this effort, CBRE Consulting contacted commercial real estate brokers and developers to understand their perceptions of the local retail market and the major commercial nodes.

Each of these tasks was conducted during April-June 2008, and the related analysis is based on the most currently available government data and other research information during this period.

SITE DESCRIPTION

The La Costa Town Square development site is in the hills of the southeastern section of the City of Carlsbad. The surrounding area includes newer housing developments and several large sections that have been graded for construction. Existing residents in the area are relatively isolated from nearby retail except for a small center anchored by a CVS drug store and the slightly larger Los Cocheros Village center, which includes a Henry's Market Place and a Petco. Otherwise, the closest major stores are nearly two miles west on El Camino Real. In addition, an Albertson's grocery store and some supporting retail stores are being built as part of the San Elijo Hills residential development, which is about two miles to the northeast of the La Costa Town Square parcels.

The La Costa Town Square shopping center will be located at the eastern corner of the intersection of La Costa Avenue and Rancho Santa Fe Road, and will include approximately 378,000 square feet of commercial space. In addition to the anchor stores, the tenants are likely to include a mix of restaurants, apparel and general merchandise retailers, a service station, and other retail stores. Space is also planned for a tenant warehouse and for personal and professional services, such as a bank branch or dental offices. Construction is expected to occur either in one phase, or with a 329,000-square-foot Phase I followed by the build-out of about 49,000 square feet of outer pads. In either case, the entire Center is expected to open during 2011.

PROJECTED RETAIL SALES

In order to determine the annual sales performance of the proposed La Costa Town Square shopping center, CBRE Consulting developed assumptions based on the expected tenant mix and information available in Retail MAXIM's *Perspectives on Retail Real Estate and Finance, September-August 2006*. The Retail MAXIM publication provides average sales per square foot figures for many national retailers and includes estimates for a range of aggregated store types, including regional supermarket chains, restaurants, and home furnishings stores.

Based on the planned 2011 opening date, the anchor tenants and related retailers at the La Costa Town Square shopping center will have their first full year of sales in 2012. Stabilized sales are not expected to occur the first year of store operations, but rather the second or third year, which is typical of new retail operations. However, for simplicity, this analysis conservatively assumes stabilized sales will be achieved in 2012. Consequently, all sales estimates were estimated with 2012 as the base year by adjusting the Retail MAXIM sales estimates according to actual inflation rates for 2006-2008 and a projected annual inflation rate of 3.0 percent for 2008-2012. CBRE Consulting used the resulting sales per square foot figures to estimate annual sales based on the total square feet of the projected individual retail store types provided by the project developer, La Costa Town Square LLC.

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Exhibit 1 shows the square footages and projected retail sales for each of the tenant types. For example, CBRE Consulting estimates that the national department store anchor will have annual sales of \$29.9 million in 2012 and the supermarket anchor will generate \$36.2 million for the same period. A movie theater is also a planned component of the Center, and while its concessions sales are a type of retail store sales, they are considered to be incidental to this analysis. Ticket sales are not classified as retail store sales and are also excluded from the calculations. Nevertheless, CBRE Consulting did evaluate how the new cinema is likely to affect competitive movie theaters in the area, and a review of those findings is included in a later section.

In addition, the planned 15,000-square-foot tenant warehouse, and the areas that will be marketed to personal and professional service providers are not expected to generate significant retail sales. As a result, these two uses were also not part of the overall sales estimates for the center, which are estimated at \$115.8 million for 2012. Of this total, \$90.1 million (about 78 percent) are expected to be taxable sales⁴ that will generate \$910,000 in sales tax revenues for the City of Carlsbad based on the City's share of the overall sales tax rate.⁵

PROJECTED RETAIL SALES BY CATEGORY

The new sales generated by La Costa Town Square shopping center will be spread across several, different retail categories. To perform a more detailed analysis, CBRE Consulting allocated the projected sales to categories that match the classifications reported by the State of California Board of Equalization (BOE), which publishes taxable retail sales figures for cities and counties. To maximize the use of these data, CBRE Consulting's analysis is benchmarked to the BOE retail categories and the related sales figures reported in its *Taxable Sales in California* publication (with some adjustments, as noted in the section about the Overall Retail Market Characterization). These categories, as typically reported for cities, include the following:⁶

- Apparel Stores
- General Merchandise Stores
- Food Stores
- Eating and Drinking Places
- Home Furnishings and Appliances
- Building Materials
- Auto Dealers and Auto Supplies
- Service Stations
- Other Retail Stores⁷

⁴ CBRE Consulting estimates that 70 percent of the projected supermarket sales and 9.03 percent of the general merchandise sales associated with the Center will be for food, prescriptions, and other non-taxable items.

⁵ Per the Carlsbad Finance Department, the City receives 1.01 percent of taxable sales as its share of the 7.75 percent sales tax rate. The remaining shares go to the State (5.5 percent), Transnet (1.01 percent), and the County (0.23 percent).

⁶ More refined categories are reported for the largest counties and are available upon special request for cities. For the purpose of this study, the more refined categories were not deemed necessary.

⁷ Other retail stores include a wide range of retailers, such as pet supplies, office supplies, garden stores, sporting goods, jewelry, florists, and gifts.

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In general, the BOE records a retailer's sales in only one sales category. For example, the actual sales for a department store are typically reported by the BOE under apparel stores. For the purpose of this study, however, the impact of the planned national department store anchor is more appropriately analyzed across several retail categories since the store will compete with retailers in the apparel, home furnishings and appliances, and other retail stores categories as well. Consequently, CBRE Consulting allocated the projected sales for the national department store across these three retail categories based on a simple average of the reported sales by segment for five national department stores, including JC Penney, Kohl's, Macy's/Bloomingdale's, Nordstrom, and Ross Stores. The average retail sales percentages for this sample group were 68.2 percent in apparel, 17.3 percent in other retail, and 14.5 percent in home furnishings. The results of this allocation are shown in Exhibit 2 and are summarized in combination with projected sales for all La Costa Town Square retail tenants in Table 3.

Table 3
Estimated La Costa Town Square Center Sales by Retail Category ¹
2012 Dollars, in millions

Retail Category	Estimated Retail Sales
Apparel	\$31.1
General Merchandise	\$4.5
Food Stores	\$36.2
Eating and Drinking Places	\$19.8
Home Furnishings and Appliances	\$7.2
Service Stations	\$6.3
Other Retail Stores	<u>\$10.7</u>
Total²	\$115.8

Source: Exhibit 2.

(1) Based on California Board of Equalization retail categories.

(2) Figures may not total due to rounding.

Subsequent analysis examines the extent to which these estimated sales may or may not have an impact on existing market area retailers.

MARKET AREA DEFINITION

CBRE Consulting conducted research to develop an estimate of the market area for La Costa Town Square shopping center—i.e., the area from which the majority of shoppers will originate. This analysis focused on how the two largest anchor tenants at the center – the national department store and the major supermarket – were likely to attract shoppers from the surrounding area. A major department store typically has a larger market area than a supermarket, which tends to attract most of its shoppers from within a 3-mile radius based on industry standards. CBRE Consulting concluded that the department store, as well as other apparel stores proposed for the La Costa Town Square shopping center, could be expected to draw customers from beyond the supermarket trade area, and that these shoppers would also tend to make grocery purchases as

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part of their visits. Consequently, the market area is primarily defined by the locations of other nearby department stores such as Macy's, Nordstrom, Kohl's, and JC Penney.

The new department store will be the first in the La Costa section of Carlsbad and will complement the wide range of apparel retailers that are already present near the Carlsbad-Encinitas border at both the Forum and the Plaza at Encinitas Ranch shopping centers. A store location map, presented in Exhibit 3, shows the closest competitive department store locations and apparel retail centers in the surrounding cities. The estimated market area is defined on the north as the rough, halfway point between the La Costa Town Square site and the retail concentration near the Carlsbad-Oceanside border, on the assumption that residents will tend to shop at the location that is closest to their home. Similarly, the market area boundary runs at an angle through Lake San Marcos and a sparsely, populated section of San Marcos due to the locations of a Nordstrom and a Kohl's near Highway 78 in San Marcos. The remaining boundaries of the market area extend as far as 10-12 miles from the La Costa Town Square site to the east and the south, based upon the ring of competing retailers in Escondido and Poway along I-15, and the concentration of larger apparel and department stores in northern San Diego.

In total, CBRE Consulting found that the market area encompasses:

- a southern section of the City of Carlsbad;
- the full cities of Encinitas, Del Mar, and Solana Beach;
- a northern section of the City of San Diego;
- a southwestern section of the City of San Marcos; and
- selected unincorporated areas, including the unincorporated city of Rancho Santa Fe and most of Fairbanks Ranch.

The concept of a percentage share allocation of demand from a market area is consistent with general real estate market analysis principles, which recognize that retailers have primary, secondary, and sometimes even tertiary market areas. CBRE Consulting believes that some shoppers will come from the northern part of Carlsbad and from other areas that are beyond the market area boundaries. In addition, hotel guests and other travelers to the area are also expected to go to La Costa Town Square shopping center for meals, entertainment, and convenience shopping. Consequently, the analysis assumes there will be demand from a secondary market area. CBRE Consulting estimates that market area residents will generate 90 percent of the Center's sales and residents coming from secondary markets will generate the remaining 10 percent of sales, or \$11.6 million of the total \$115.8 million in projected 2012 sales.

RETAIL MARKET CHARACTERIZATION

CBRE Consulting conducted field research in the market area in early May 2008 and supplemented this reconnaissance with interviews of local commercial real estate brokers, developer representatives and leasing agents, and city planning and economic development officials. CBRE Consulting observed that the retail market is generally healthy, with a broad range of major stores and shopping centers, and a relatively low level of vacancy, which brokers estimated at less than 5.0 percent. In addition, a CB Richard Ellis market research report for the

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first quarter 2008 indicates that the submarkets⁸ that encompass the market area have vacancy rates that range from 1.0 to 3.9 percent, which is another indication of strong leasing demand in the area. More specific research from a Cushman & Wakefield report based on the fourth quarter of 2007 shows the actual performance of most major retail centers in the market area as summarized in Table 4 below.⁹

Table 4
The Size and Performance of Other Market Area Shopping Centers¹
4th Quarter 2007

Center	Square Footage	Vacancy Rates	Asking Rates
Town Center - Encinitas Ranch	533,742	0.0%	\$3.00-\$3.75
The Forum @ Carlsbad	270,000	3.0%	\$3.25-\$4.00
Plaza - Encinitas Ranch	150,000	0.0%	\$3.50-\$3.75
Plaza Paseo Real	147,207	0.0%	\$3.35
La Costa Towne Center	125,000	0.7%	\$2.50-\$3.50
Encinitas Marketplace	119,738	14.9% (2)	\$3.50-\$4.00
La Costa Plaza	75,670	0.0%	\$4.00-\$4.50
Los Coches Village	68,000	0.0%	\$4.00
Rancho La Costa Village	27,384	16.4% (3)	\$4.25
Total/Average/Range	1,516,741	3.9%	\$2.50-\$4.50

(1) Community and Neighborhood Shopping Centers within the market area.

(2) Vacancy rate reflects a former Tweeter store and available second-story office space.

(3) Vacancy reflects vacant multi-tenant pad planned for redevelopment.

Sources: Cushman & Wakefield; and CBRE Consulting.

Of the nine centers analyzed by Cushman & Wakefield, there are two that have vacancy rates higher than 5.0 percent. At the Encinitas Marketplace, 13,000 square feet of the vacancy (10.9% of the 14.9% vacancy rate) is due to the closure of a Tweeter electronics store in Fall 2007. The Tweeter chain closed 12 southern California locations in all. Given the relative strength of the market and the owner's options to renovate the space, this shopping center is not expected to have persistent high level of vacancy (i.e., beyond 2-3 years). At the Rancho La Costa Village center, the owner is redeveloping several pads, and Cushman & Wakefield reported 4,500 square feet of vacancy while that space is marketed. This newer space is also likely to be filled shortly.

⁸ These submarkets, as defined by the CB Richard Ellis research group, are Cardiff/Encinitas/Leucadia, Carlsbad/La Costa, Del Mar/Solana Beach/Rancho Sante Fe, and Rancho Bernardo. The CB Richard Ellis report also tracks the San Marcos submarket, which has a 3.9 percent vacancy, though the submarket boundaries do not include the portion of San Marcos that is in the Center's market area.

⁹ The Cushman & Wakefield report covered the South Carlsbad Retail Trade Area, defined by the brokerage firm as the area bounded on the north roughly by Palomar Airport Road, on the south and east roughly by Rancho Sante Fe Road, and on the west by the Pacific Ocean. As a result, the report did not include retail centers in the southern part of the La Costa Town Square market area.

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Several brokers contacted characterized the local retail market specifically as “underserved” or “under-developed,” meaning that there is significant demand for the expansion of retail inventory. These contacts also indicated that retail and residential development plans had slowed during the past year due to wider uncertainty in the broader real estate market. Overall, however, the market area has been relatively insulated from the foreclosure issues that have affected southern parts of San Diego County. As a result, developers have continued to trade parcels and are reportedly waiting for the right time to begin their projects.

While there is strong demand for retail space across all center types, larger shopping centers near residential areas, including The Forum and Encinitas Ranch Town Center, are viewed as the most desirable. One broker indicated that these two retail centers have a significant regional draw, and that there is enough local demand from the cities of Carlsbad and Encinitas to attract new stores and develop another similar cluster nearby. In addition, area retailers seldom vacate space, and so even during the relatively slow period in the market over the last year, vacancies have remained low. Consequently, the local and national retailers that want to enter or expand in the market area typically consider space in new projects or collaborate with developers to create larger spaces in existing shopping centers.

Each of the real estate professionals contacted for this study was supportive of the La Costa Town Square project and felt that there would be minimal negative impacts on area vacancies or rents. One local broker described the project as one that has the potential for “high traction” among the local residents because of the introduction of a cinema and more convenient shopping options, especially for people who live in the newer homes east of El Camino Real.

RETAIL DEMAND, SALES ATTRACTION, AND SPENDING LEAKAGE ANALYSIS

CBRE Consulting uses a statistical regression-based model that estimates retail spending potential for a market area based upon households, income levels, and consumer spending patterns.¹⁰ Generally referred to as a “Retail Demand, Sales Attraction, and Spending Leakage Analysis,” or similar nomenclature by real estate-based economic consulting firms comparable to CBRE Consulting, the model determines the extent to which a market area is or is not capturing its sales potential based upon reported taxable sales data. In California, these data are generally published by BOE or provided by municipal tax consultants.

Retail categories in which spending is not fully captured are called “leakage” categories, while categories in which more sales are captured than are generated by market area residents are called “attraction” categories. Generally, attraction categories signal particular strengths of a retail market, and leakage categories signal particular weaknesses. While the retail sales analysis provides this level of result for the market area, it also develops estimates of per household spending on all relevant goods. These estimates can then be used for the purpose of developing retail demand estimates based on future household growth.

¹⁰ Much of the analysis is predicated upon spending patterns by household income per the United States Department of Labor, Bureau of Labor Statistics, Consumer Expenditures Survey.

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Population, Households, and Income Estimates

CBRE Consulting's analysis relies on population, household, and average household income inputs for its control area benchmarks and for the study areas, including for this analysis San Diego County, the local cities, and the designated market area. The State of California Department of Finance (DOF) publishes annual population estimates and projections, and this information served as the main source for the city and county population figures. In addition, since the half-oval shape of the designated market area does not conform to local city or county boundaries, CBRE Consulting relied on data from Claritas, a national provider of economic and demographic information, to estimate the market area population as a percentage of the San Diego County total for selected years. CBRE Consulting then applied those percentages¹¹ to the DOF's county population figure to generate market area population estimates for 2006, 2011, and future years. Using this approach, CBRE Consulting calculated a market area population of 175,659 in 2006, which increases to 196,849 by 2012 based on a 1.92 percent annual growth rate.

For the related household projections, CBRE Consulting relied on a similar approach based on household estimates and county projections for 2010 and 2020 provided by the San Diego Association of Governments (SANDAG). The figures for market area households were calculated by estimating interim year totals for San Diego County based on an average annual growth rate in the SANDAG data, and then applying estimates of market area percentages¹² for selected years based on Claritas data. As a result, the market area is expected to increase from 73,304 households in 2006 to 82,011 households in 2012. Exhibit 4 summarizes both the population and household estimates, and presents the projected growth through 2017.

Household income information for San Diego County and the market area was also provided by Claritas. Table 5 below presents these details along with reference details for Carlsbad and Encinitas, the two cities that collectively account for about 60 percent of market area households.

Table 5
Average Household Income Estimates
San Diego County, the Market Area, and Selected Cities

Geographic Area	2007 Estimated Income per HH	2012 Estimated Income per HH
San Diego County	\$77,474	\$87,602
La Costa Town Square Market Area	\$128,994	\$140,016
City of Carlsbad section in Market Area ¹	\$121,599	\$132,961
City of Encinitas	\$105,534	\$116,434

Sources: Claritas data as specified by CBRE Consulting.

¹The market area section of Carlsbad has higher average household income levels than the city as a whole. Claritas estimates average household incomes of \$107,754 in 2007 and \$119,175 in 2012.

¹¹ Market area population was estimated at 5.38 percent of the San Diego County total in 2000 with an increase to 6.37 percent of the county total by 2017 based on current and projected growth rates.

¹² Market area households were estimated at 6.14 percent of the San Diego County total in 2000 with an increase to 7.28 percent of the county total by 2017 based on current and projected growth rates.

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The remainder of the market area includes a high income section of the City of San Diego (about 17 percent of market area households) and high income unincorporated areas such as Rancho Sante Fe and Fairbanks Ranch. Del Mar, Solana Beach, and a small part of San Marcos are sections of the market area that have more moderate household income levels than the area average of \$128,994 in 2007.

Sales Estimates

The California Board of Equalization (BOE) publishes taxable sales figures for counties and major cities, and its most recent, available full-year taxable sales figures are for 2006. CBRE Consulting relied on the BOE's figures to estimate sales for the market area. Retail sales information for the larger cities is available in Table 5 of the BOE's *Taxable Sales in California* publication. The BOE also presents more limited taxable sales details for smaller, incorporated cities, including Del Mar and Solana Beach, in Table 6 of its publication, though the Table 5 level data are available by request.¹³ In addition, some details on unincorporated areas of San Diego County are reported in Table 5, and the BOE prepared a supplemental table for CBRE Consulting for this analysis that shows sales in the unincorporated areas by retail category.

In some cases, the BOE tables suppress data for a specific retail sales category for a city or county based on its related disclosure requirements. For example, if there are only one or two stores in a category or if one retailer dominates the category sales in a single city, then the sales in that category are not released separately. Instead, the BOE combines those sales figures within the "Other Retail Sales" category. This is more prone to occur in retail markets where the number of retailers is small or one large retailer makes up most of the sales in a category. Several of the cities in the market area had one or more categories in which sales data were reported under Other Retail Sales. In these cases, CBRE Consulting used Claritas data for comparable sales categories to allocate the Other Retail Sales to one or more of the unreported categories. (See Appendix B for more details on the Claritas data and CBRE Consulting's approach.)

To estimate market area sales, CBRE Consulting analyzed BOE data for the following three geographic areas:

1. **Incorporated cities that are fully within the market area** – Taxable retail sales for these cities, including Del Mar, Encinitas, and Solana Beach were available directly from the BOE. Exhibit 5 presents the BOE data and CBRE Consulting's estimates for retail categories that are combined into "Other Retail" in the 2006 BOE report. This part of the market area accounted for \$1.25 billion in taxable sales in 2006, primarily from the City of Encinitas (\$901.7 million).

¹³ CBRE Consulting obtained Table 5 level details about taxable sales by retail category for Del Mar and Solana by contacting the BOE. The BOE does not publish retail category details for Table 6 cities in *Taxable Sales in California* due to the large number of smaller cities and because the BOE's disclosure requirements often limit the publication of the Table 5 level sales categories.

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2. **Incorporated cities that are partially within the market area** – Sections of Carlsbad, San Diego, and San Marcos are included in the market area, and the analysis uses estimates of the share of the BOE taxable sales for these three cities that are applicable. CBRE Consulting used geographic mapping information and Claritas data to calculate the percentage of each city's retail sales that had occurred within the related market area section. Those percentages were then multiplied by the city-level BOE data for each retail category to develop sales estimates for each of the sections. Exhibit 6 shows these calculations for each of the three cities. CBRE Consulting estimated this component of the market area generated \$530.7 million in taxable sales. About 55.3 percent of this total is from the Carlsbad section and 44.5 percent is from the San Diego section. The market area portion of San Marcos is more sparsely populated and only accounts for 0.2 percent (\$1.1 million) of the estimated sales for this group.
3. **Unincorporated areas within the market area** – Rancho Santa Fe and sections of Fairbanks Ranch and Lake San Marcos are also within the market area. However, the BOE does not publish specific taxable sales information for these unincorporated cities and other unincorporated areas of San Diego County that are within the market area. Therefore, CBRE Consulting derived per capita sales estimates by retail category using BOE data for the unincorporated areas of San Diego County and comparable population figures from the California Department of Finance. CBRE Consulting also used Claritas data to calculate that the unincorporated population within the market area is about 3.6 percent of the 2006 DOF county estimate¹⁴, or 17,034 residents. As shown in Exhibit 7, multiplying this related population by the per capita sales figures generates a taxable retail sales estimate of \$54.8 million for this part of the market area.

Table 6 below presents the summary details from Exhibits 5-8, and highlights the proportion of sales by retail category. In addition, the total retail sales column reflects an adjustment for non-taxable retail sales at drug stores, which are a subset of the BOE general merchandise category, and at food stores. CBRE Consulting estimates that 70 percent of food store sales and 67 percent of drug store sales are non-taxable based on discussions with the BOE and other industry research. Consequently, the BOE taxable sales figures for the two related categories are adjusted upward to reflect non-taxable transactions (see Exhibit 8 for additional details.)

¹⁴ The California Department of Finance estimated the population of San Diego County's unincorporated areas as 473,801 for 2006.

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Table 6
Market Area Retail Sales Estimates
2006 Dollars, in Millions

BOE Retail Category	Incorporated Cities Fully Within the Market Area¹	Incorporated Cities Partially Within the Market Area¹	Unincorporated Areas in the Market Area¹	Total Retail Sales including Non-Taxable Sales²
Apparel	\$58.1	\$29.8	\$2.3	\$81.8
General Merchandise	112.4	90.5	6.3	243.8
Food Stores	90.9	89.6	8.2	460.1
Eating and Drinking	252.1	72.7	8.4	289.6
Home Furnishings & Appliances	107.4	23.1	1.6	126.6
Building Materials	187.4.	28.5	4.5	197.9
Auto Dealers and Auto Supplies	122.1	14.0	3.3	138.9
Service Stations	92.1	67.8	11.7	114.0
"Other Retail Stores"	<u>223.7</u>	<u>114.8</u>	<u>8.5</u>	<u>301.8</u>
Total³	\$1,246.3	\$530.8	\$54.8	\$1,954.5

Source: Exhibits 5-8.

(1) Represents taxable sales only.

(2) Includes taxable sales and estimates of non-taxables sales for drug stores in the General Merchandise category and for grocery stores in the Food Stores category.

(3) Totals may reflect rounding.

With the adjustments for non-taxable sales, the City of Encinitas captures slightly more than half of the \$1,954.5 million in market area sales estimated for 2006. By retail category, the largest sales concentrations are in Food Stores, "Other Retail", and Eating and Drinking Places.

Findings

CBRE Consulting used the market area sales, population, and income estimates to prepare a Retail Demand, Sales Attraction, and Spending Leakage Analysis, which examines the market area's sales performance relative to its household base in order to assess the degree to which the geographic area is serving the retail needs of its resident households. This analysis was conducted using 2006 data and extrapolated to 2012, which is the expected first full year of operations of the La Costa Town Square Center. Per household expenditure trends from 2006 are assumed to be equivalent to the per household expenditure trends for 2012, with adjustments for interim population growth and inflation. The purpose of this adjustment was to maximize comparison with the Center's sales anticipated during its first full year of operations in 2012.

In 2006, the market area had significant leakage in retail sales, with 33.0 percent of sales (\$940.2 million) estimated to occur outside the geographic area (see Exhibit 9 for details.) However,

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performance across categories varied widely. For instance, the Auto Dealers and Auto Supplies category accounted for \$628.4 million in leakage because the major Carlsbad auto dealerships are just beyond the market area boundary. The other categories that demonstrated strong to moderate leakage, and their respective shares of lost resident household sales dollars, are as follows:

- Service Stations with 53.9 percent;
- General Merchandise stores with 38.8 percent;
- Apparel Stores with 36.1 percent;
- Building Materials with 30.1 percent; and
- Eating and Drinking places with 13.3 percent

This pattern of retail weakness is partially offset by the demonstrated strength Food Stores, Home Furnishings and Appliances retailers, and the "Other Retail Sales" category. In particular, the series of grocery-anchored, neighborhood centers along El Camino Real in Encinitas and Carlsbad appear to generate strong sales volumes among market area residents.

PROSPECTIVE LA COSTA TOWN SQUARE SHOPPING CENTER SALES IMPACTS

The following analysis examines the extent to which the La Costa Town Square shopping center would attract new sales to the market area and/or divert sales from existing retailers. If some sales are diverted, the maximum level of impact on existing market area retailers is identified.

CBRE Consulting has developed an analytic approach that conservatively estimates the maximum impact of retailers, such as those proposed for the Center, on existing retailers. For this analysis, the approach assumes that if the Center is adding sales to a category in an amount greater than any market area leakage in the category, **then at worst**, the amount of Center sales in that category in excess of any recaptured leakage will be diverted away from existing market area retailers. In other words, the negative economic impacts of the Center's sales will be spread proportionally among all the like retailers in the market area.

Adjusted Sales Base

While the 2006 Retail Demand, Sales Attraction, and Spending Leakage Analysis findings are informative, they do not reflect the situation that will prevail when the Center becomes operational. In order to adequately assess the potential for impacts in the market area from the opening of the Center, CBRE Consulting inflated the 2006 retail sales base by the Consumer Price Index (CPI) for the Western U.S. for 2006-2008¹⁵ and by 3.0 percent as a standard inflationary assumption for 2008-2012 (see Exhibit 10).

The 2012 market area sales estimate also considers whether any major retail centers or stores (i.e., 40,000 square feet or above) had opened or closed since the end of 2006. Based on interviews with local commercial real estate brokers and city officials, CBRE Consulting determined that while several new retail centers are either planned or under construction, there have not been any major

¹⁵ Calculated by CBRE Consulting as 3.42 percent annually based on January 2006 – January 2008 CPI figures.

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changes in the market area retail base between year-end 2006 and April 2008.¹⁶ In addition, CBRE Consulting did not identify any large, persistent vacancies (i.e. more than 2-3 years), either through its interviews, related field research, or online analysis of local shopping centers using CoStar, a commercial real estate information service. Consequently, the analysis did not require additional adjustments to reflect recent changes to the retail base.

Estimated New Demand

New market area household growth and recaptured leakage represent major sources of new demand for La Costa Town Square shopping center and other area retailers. CBRE Consulting prepared projections for both of these components of demand as follows:

Demand from New Household Growth. As shown in Exhibit 4, CBRE Consulting used projections from SANDAG and Claritas to estimate that a total of 8,707 new households will be added to the market area between 2006 and 2012. Using the total household spending for each relevant BOE retail sales category adjusted to 2012 dollars, CBRE Consulting estimated the aggregate new demand by retail sales category that will be created by the addition of these households to the market area. The new households are projected to generate \$407.5 million in new retail demand spread across the nine BOE retail categories (see Exhibit 11).

As indicated by the Retail Demand, Sales Attraction, and Spending Leakage Analysis, residents of the market area do not conduct all of their shopping within the market area, particularly in categories that demonstrate significant sales leakage. CBRE Consulting developed assumptions regarding the percentage of new household demand for each sales category that the Center's market area could reasonably expect to capture, which are presented in Exhibit 12. The capture rates were developed by analyzing the Center's projected share of 2012 market area sales base and adding a premium of 4.0 percent to the rate because the stores and format will be new. In addition, the Auto Dealers/Supplies category was excluded from this part of the analysis since neither La Costa Town Square shopping center nor the other major, proposed retail projects will compete in this segment. Excluding the Auto Dealers/Supplies category, CBRE Consulting estimated that market area retailers will capture \$218.4 million of the new household demand, which is about 73 percent of the available new demand for the eight related retail categories.

Further analysis presented in Exhibit 12 reflects how the new demand is expected to be distributed between La Costa Town Square shopping center and other market area retailers. The existing stores are expected to attract the remaining new household demand less the Center's capture rates (e.g. 100 percent minus the Center's rates by retail category.) As a result, the analysis assumes that La Costa Town Square shopping center will attract \$19.5 million of the demand associated with new household growth, while the remaining \$198.9 million will be distributed among other market area retailers.

Recaptured Leakage. Another source of demand for La Costa Town Square shopping center is recaptured sales leakage from resident demand that is currently being met outside the market

¹⁶ The most recent, full-year taxable sales data published by the California Board of Equalization is from 2006, and CBRE Consulting completed most of its market area research in April 2008. The interim period was examined to see if recent increases or decreases in market area retail space should be incorporated into the 2012 sales projections.

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area, in part because the current supply of retail stores is not sufficient to support demand for retail goods. Exhibit 13 presents the projected retail sales leakage amounts in 2012 and calculations of the maximum potential leakage that may be captured by the Center. CBRE Consulting conservatively estimates that the rates for recapturing leakage, where applicable, are the same as those rates used to estimate the proportion of captured demand from household growth. It is reasonable to assume that these rates are similar, because in each instance, the Center is evaluated on its potential to attract sales based on location and type of goods sold, relative to its competitors. Consequently, the analysis estimates that the Center has the potential to capture up to \$45.0 million in demand by attracting sales from market area residents who currently shop outside of the market area.

Potential Retail Sales Impacts

The demand associated with new household growth and recaptured leakage is expected to absorb almost half of La Costa Town Square shopping center's estimated 2012 sales generated by the market area. Exhibit 14 presents the Center's projected sales by retail category and the related demand estimates described above. This includes \$19.5 million in sales captured due to household growth. In addition, CBRE Consulting matched the potential recaptured leakage (\$45.0 million) against the retail sales at the Center and calculated that \$27.1 million in recaptured leakage for the relevant categories is available to offset sales impacts.

The remaining intermediary potential sales impacts total \$57.6 million. As shown in Exhibit 15, the balance of new demand from household growth available for other retailers in the market area totals \$198.9 million (see derivation in Exhibit 12). This additional demand offsets all of the intermediary sales impacts, including those in the Apparel Stores, Food Stores, Eating and Drinking Places, Home Furnishings and Appliances, and "Other Retail" stores categories. Table 7 presents a summary of these results based on the retail mix expected at La Costa Town Square shopping center.

Table 7
Maximum La Costa Town Square Shopping Center Sales Impacts
Market Area Estimates
2012 Dollars, in millions

Retail Category	Estimated Sales Generated from Market Area for Proposed Center	Maximum Sales Diverted From Market Area Retailers	Percent of Sales Diverted from Market Area Retailers
Apparel	\$28.0	\$0.0	0.0%
General Merchandise	\$4.1	\$0.0	0.0%
Food Stores	\$32.6	\$0.0	0.0%
Eating and Drinking	\$17.8	\$0.0	0.0%
Home Furnishings & Appliances	\$6.4	\$0.0	0.0%
Service Stations	\$5.6	\$0.0	0.0%
"Other Retail Stores"	<u>\$9.6</u>	<u>\$0.0</u>	<u>0.0%</u>
Total¹	\$104.2	\$0.0	0.0%

(1) Figures may not total due to rounding.
 Source: Exhibits 14 and 15.

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Moreover, the La Costa Town Square shopping center market area is likely to experience continued demand growth from new households after 2012 that will benefit area retailers. Exhibits 16 and 17 present the related calculations, which indicate that total retail demand is projected to increase by \$28.2 million to \$30.0 million annually in the five years after 2012.

Potential Impacts on Area Movie Theaters

The 53,000-square-foot cinema that is proposed at La Costa Town Square shopping center was specifically excluded from the quantitative analysis because movie theater sales are not presented in the BOE's *Taxable Sales in California* publication nor in the comparable Claritas data. Consequently, CBRE Consulting researched movie theater trends nationally and in the local area to gauge the effect that the Center's cinema may have on existing competitors. Moreover, the field research and market analysis that CBRE Consulting conducted provided several insights about how movie theaters in the market area are performing.

According to the National Association of Theatre Operators (NATO), a trade organization that tracks movie theater trends, the number of U.S. cinema sites has declined steadily during the past eight years. In 1999, there were about 7,000 indoor movie theaters nationally and by 2007, the figure had fallen by more than 20 percent to 5,545 locations.¹⁷ During the same period, however, the number of indoor movie screens in the U.S. actually increased slightly from 36,448 in 1999 to 38,159 in 2007¹⁸, reflecting the larger number of cinema multiplexes. These newer cinemas offer more movie choices per location and other enhanced amenities such as:

- stadium seating
- digital sound/digital projection, including 3-D projection in some cases
- online ticketing
- reserved seating
- valet parking
- enhanced food and beverage options, including dinners served by waiters and extensive wine and beer selections

As a result, the older movie theaters have had a harder time competing with newer formats. Within the local area, the *North County Times* reported how the number of North County movie theaters had dropped from 19 in 2000 to 15 in 2004. This article also quotes the president of NATO who confirmed that the area was following a national trend: "As you have new theaters opening, the older, smaller theaters go."¹⁹

In late 2005, the *North County Times* also described the initial plans to close the AMC Encinitas 8 when the cinema's lease expired at the end of the year.²⁰ The theater operated on a month-to-month lease until January 2007 when it closed its doors.²¹ During field research in May 2008,

¹⁷ See <http://www.natoonline.org/statisticssites.htm>

¹⁸ See <http://www.natoonline.org/statisticsscreens.htm>

¹⁹ "New movie theaters: After the '90s overbuild, expansion slowly coming to North County," *North County Times*, February 6, 2004.

²⁰ "Curtain could fall on Encinitas cinema," *North County Times*, November 19, 2005.

²¹ "It's lights out for the AMC Encinitas 8," *North County Times*, February 7, 2007.

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CBRE Consulting observed that a Staples store was nearing completion at the former theater location in the El Camino Promenade center. According to a site plan available on Weingarten Realty Investors web site, it appears that a Golf Galaxy store and a Shoe Pavilion will also be opening soon in newly constructed space next to the Staples store.

Exhibit 19 maps the cinemas that currently operate in the market area according to data from Claritas. Of the 18 movie theaters shown, only four are within the La Costa Town Square shopping center market area. These include:

- **La Paloma**, a single theater that opened in 1928 and is viewed as an area landmark. The theater currently features second-run and independent movies, and hosts community events including graduations, concerts, and fundraisers to support the cinema operations.
- **Three Ultra Star Theatres**, including the **La Costa 6**, the **Flower Hill 4**, and the **Del Mar Highlands 8**, are each located in older, neighborhood shopping centers. In addition, the owner of the Flower Hill Promenade center recently presented plans to raze the Ultra Star cinema at that location to create space for a new Whole Foods supermarket.

Based on this information, and the local and national theater trends, CBRE Consulting assumes that the Flower Hill 4 cinema will close when the Flower Hill Promenade center is renovated. It is also possible that one or more of the remaining theaters would close or relocate to a newer cinema complex within the next 2-3 years. Nevertheless, it is important to note that these impacts are independent of the opening of the cinema at La Costa Town Square shopping center. In addition, even if the proposed movie theater at the Center adds to the competitive pressure and other cinemas go out of business, the successful pattern of redeveloping older theater locations suggests that no persistent vacancies will occur. The strong demand for retail space and the center owners' interest in maximizing the value of their properties are likely to support renovations and the re-use of the space, similar to what is underway at the El Camino Promenade center and what is planned for the Flower Hill Promenade.

PROSPECTIVE CUMULATIVE SALES IMPACTS

This analysis seeks to assess the impact of the planned La Costa Town Square shopping center taking into consideration other planned retail projects in the market area. The cumulative projects that have been assessed for impacts include major retail developments in the market area that are reasonably foreseeable to be open and fully operational by 2012.

The information provided on the planned retail projects is approximate, and was largely gathered through discussions with economic development and planning representatives, online research of city web sites, and interviews with developers. In addition, the scope of this review was limited to major retail projects, which CBRE Consulting defines as stores or developments that account for at least 25,000 square feet of retail space. These are the types of retail centers deemed to be most competitive with a center like La Costa Town Square.

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Potential Major Retail Development Projects

CBRE Consulting identified five other major retail development projects that are either within the market area or are close enough to the market area boundaries to be viewed as competitive projects.²² These developments, which are described in more detail in Exhibit 20, are as follows:

- **South Vista Target Center** in Vista, a 137,000-square-foot Target store and 7,000 square feet of other retail space that is proposed to open in late 2008.
- **Bressi Ranch Center** in Carlsbad, the retail component of the upscale, master-planned community of Bressi Ranch, is currently under construction and is expected to open with both a Stater Brothers supermarket and a Trader Joe's store at the end of 2008.
- **San Elijo Town Center** in San Marcos, a 90,000-square-foot retail project anchored by an Albertson's supermarket that is also under construction and is expected to open in mid-2008.
- **Flower Hill Promenade Renovation** in Del Mar, an expansion project at an existing shopping center to add an estimated 52,000 square in net new retail space including a Whole Foods Market.
- **Cedros Crossing** in Solana Beach, a mixed-use project that will include about 24,700 square feet of retail space in the downtown area.

Exhibit 21 shows the location of these proposed developments in relation to the La Costa Town Square shopping center site and the market area boundaries defined by CBRE Consulting.

Potential Cumulative Store Closures

CBRE Consulting did not identify any stores or centers that are slated to close within the foreseeable future. However, based on the low vacancy in the market area and the observed trend toward adding or reconfiguring space in existing shopping centers, some reshuffling of the retailers and other businesses is likely to occur. Space that is functionally obsolete and that can be renovated to support higher rents is expected to be redeveloped to support new uses. This subject will be described in more detail in the discussion of Cumulative Store Impacts and the Urban Decay Assessment.

Projected Sales for Other Major Retail Developments

Exhibit 22 presents the calculations of the estimated sales for the five new development projects. The related sales for the Target store and the shop space are estimated using Retail MAXIM sales per square foot data that are adjusted for inflation to 2012 dollars and multiplied by the planned square footages. This approach is essentially the same as how the Center's sales are calculated in

²² CBRE Consulting also researched the proposed University Village development, which is outside the market area in San Marcos. However, this project was not included in the analysis both because of its distance from the market area boundary, and because the development plan is in the early stages. Consequently, the potential retail component of this project is not likely to be competitive with La Costa Town Square shopping center in 2012.

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Exhibit 1. For the four proposed grocery stores, CBRE Consulting calculated sales figures according to data published by *Progressive Grocer* in May 2008.²³ The overall sales volumes for each grocery store chain were divided by number of related stores to estimate average sales per store for Stater Brothers, Trader Joe's, Whole Foods Market, and Albertson's. Two of these chains, Trader Joe's and Whole Foods Market, have results that are significantly higher than the grocery industry averages published by Retail MAXIM. Consequently, the *Progressive Grocer* data are viewed as a more appropriate source for these new stores than the Retail MAXIM data.

Exhibit 23 summarizes the estimates of the level of market area sales that are expected from each of the new retail centers. As mentioned, the market area is estimated to generate 90 percent of the La Costa Town Square shopping center's 2012 sales. Consequently, the two other projects that are not near the boundaries of the market area – Flower Hill Promenade and Cedros Crossing – are also estimated to receive 90 percent of sales from market area residents. The San Elijo Town Center, which will be anchored by an Albertson's, is located on the edge of the market area and is also within a few miles of another newer Albertson's store (see Exhibit 18). Therefore, the analysis assumes that market area residents will generate 50 percent of the 2012 sales for the proposed Albertson's at the San Elijo Town Center.

Bressi Ranch Center and the South Vista Target Center are both beyond the La Costa Town Square shopping center market area boundary, though they are each expected to attract some sales from market area residents. For example, the proposed Whole Foods Market at Bressi Ranch Center is not currently represented in the market area and is likely to draw some of the same local customers. The retail center's second anchor, a Trader Joe's, does have a location roughly five miles to the south of the Bressi Ranch Center site (see Exhibit 18), yet is also expected to attract some of the market area shoppers who live closer to the proposed new store. Therefore, the analysis estimates that 50 percent of the Bressi Ranch Center sales will be generated by the market area. For the South Vista Target Center, the percentage of market area sales is estimated at 25 percent because the development is outside the northern market area boundary and because it will be close to another Target store located at the Encinitas Ranch Town Center at the intersection of Rancho Sante Fe Road and El Camino Real in Encinitas, which is likely to draw much of the related market area demand.

Estimated Cumulative Sales Impacts

The remainder of the analysis assesses sales from these other major retail projects using the same process as the sales from the Center alone. Exhibit 24 presents the allocation of sales generated by the market area to the related BOE retail categories. Exhibit 25 then combines these sales with the comparable estimates for La Costa Town Square shopping center and weighs the cumulative sales against sources of demand to arrive at potential unabsorbed sales figures by category. CBRE Consulting compared the total estimated sales from the cumulative projects with potential sources of demand, including demand from new households and recaptured retail sales leakage from the market area. These sales figures are further weighed against market conditions to assess the potential impacts of the cumulative projects.

²³ "The Super 50: Grocery's Leading Chains by Supermarket Sales Volume," *Progressive Grocer*, May 2008.

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Based on the results, which are summarized in Table 8, no cumulative sales diversions are expected in six of the eight retail categories that were analyzed. Apparel Stores and Food Stores will have potential diverted sales, which are also presented below as a percentage of market area sales based on calculations in Exhibit 26.

Table 8
Maximum Cumulative Sales Impacts
2012 Dollars, in millions

Retail Category	Estimated Cumulative Sales Generated from the Market Area	Maximum Sales Diverted From Market Area Retailers	Percent of Interim Sales Diverted from Market Area Retailers
Apparel	\$30.6	\$0.3	0.4%
General Merchandise	\$8.0	\$0.0	0.0%
Food Stores	\$90.1	\$46.2	8.3%
Eating and Drinking	\$28.1	\$0.0	0.0%
Home Furnishings & Appliances	\$7.1	\$0.0	0.0%
Building Materials	\$0.0	\$0.0	0.0%
Auto Dealers/Auto Supplies	NA	NA	NA
Service Stations	\$5.6	\$0.0	0.0%
"Other Retail Stores"	\$19.4	\$0.0	0.0%
Total¹	\$188.9	\$46.6	2.0%

(1) Figures may not total due to rounding.
 Source: Exhibits 25 and 26.

As shown, the market area may experience up to \$46.6 million in sales impacts in 2012 concentrated primarily in the Food Stores category. Apparel Stores will have potential impacts of about \$346,000, or 0.4 percent of sales. CBRE Consulting has analyzed Retail MAXIM store revenue information from 1995-2005 and found that retail sales variations of up to 3.0 percent annually in specific categories are common as a result of new competition and other changes in market conditions. Consequently, sales impacts of less than 3.0 percent are not considered significant since retailers should expect to be prepared for this level of interim variation. In addition, the growth in new market area households during 2012-2013 is expected to generate \$1.2 million in new Apparel Stores demand that will offset the projected impacts in this category; (see Exhibits 16 and 17 for additional background).

Discussion of Foods Stores Impacts

The potential Food Stores impacts of \$46.2 million are attributable to the proposed opening of three new supermarkets in the market area and two others just outside the market area boundary at Bressi Ranch Center. The planned Target store at South Vista Target Center will also attract some market area demand in the Food Stores category. As shown in Exhibit 25, Column C, these new stores are projected to generate \$90.1 million in Food Stores sales from market area residents in 2012.

It is important to note that this analysis assumes that Food Store sales from each of the new supermarkets and the Target store will achieve full stabilization in 2012. To be conservative, CBRE Consulting used 2012 because it allows at least one full year of operations for all of the stores. In

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reality, most stores take two to three years to achieve full sales projections. Moreover, two of the proposed supermarkets — the Whole Foods Market at Flower Hill Promenade and the planned store at La Costa Town Square shopping center — are not expected to open until at least 2011. Consequently, the estimated sales diversions are partially dependent on how quickly these new stores achieve stabilized sales after opening. Moreover, one of more of store openings could be delayed until mid-2012 or later, which would further limit the related sales diversions.

The extent of the sales impact is also dependent on the new stores achieving the level of sales projected in the analysis. Information included in a recent report by *Progressive Grocer*,²⁴ a leading grocery industry publication, indicates sales levels for Whole Foods Market and Trader Joe's that are significantly higher than the industry averages for supermarkets. On a per-square-foot basis, the Whole Foods Market is projected to have 2012 sales of \$782 per square foot while the proposed Trader Joe's store is estimated to operate at a \$1,374 sales-per-square-foot rate. For comparison, the industry average for supermarkets, adjusted to 2012 dollars, is about \$450-\$475 per square foot. If these two stores or the other new nearby supermarkets do not achieve their sales projections due to the increased competition in the Food Stores category, then the related sales impacts on existing grocery stores could be reduced.

Several of the existing supermarkets in the market area offer a wide range of products and services. For example, the larger stores tend to have pharmacies, a broad selection of other general merchandise products, small take-out coffee stands and restaurants, large wine selections, photo finishing services, and fresh flowers. As a result, some of the demand estimated for General Merchandise Stores,²⁵ Eating and Drinking Places, and "Other Retail" Stores is probably being absorbed by the Food Stores category. The Retail Demand, Sales Attraction, and Spending Leakage Analysis does not specifically account for this cross-category purchasing at supermarkets. However, the larger grocery stores have already adapted their retail mixes to attract unmet demand in other categories. With increased competition in the Food Stores sector, local supermarkets are expected to continue expanding the range of products and services they offer to offset potential sales diversions.

Household growth in the years immediately following the Center's opening will generate new retail demand in the Food Stores category and across other retail categories where supermarkets can reasonably compete. As Exhibit 17 illustrates, about \$85.2 million in new demand associated with household growth is projected within three years after La Costa Town Square shopping center's first full year of operations. That total includes \$10.2 million in the Food Stores category, \$11.7 million in General Merchandise, \$8.3 million for "Other Retail", and \$3.8 million for Eating and Drinking Places. These increases in spending are expected to offset a significant part of the Food Store sales diversions associated with the cumulative retail developments.

Finally, given that variations of 3.0 percent of retail category sales are typical based on changes in market conditions, approximately \$16.6 million²⁶ of the interim sales impacts are viewed as within the range of normal sales adjustments for the Food Stores category. Subtracting this range from interim sales impacts creates a sale diversion total of \$29.6 million in 2012, which reflects the level of sales impacts that are considered significant within this analysis.

²⁴ "The Super 50: Grocery's Leading Chains by Supermarket Sales Volume," *Progressive Grocer*, May 2008.

²⁵ Drug stores are included in the General Merchandise Stores category.

²⁶ Based on 3.0 percent of projected 2012 Food Store sales of \$553.9 million.

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Potential Impacts on Existing Retailers

If the other planned supermarkets and the Target store do perform at their projected levels, and \$29.6 million in significant diversions occur, then there are a number of factors that will dictate how these impacts will affect existing food store retailers. These factors will include the extent to which the sales impacts are spread or concentrated among select food stores, the ability of retailers to develop strategies to fend off competition, and the extent to which lost sales affect store profitability.

As part of its field research, CBRE Consulting identified several supermarkets that will be competitive with the grocery store anchor proposed at La Costa Town Square shopping center. Table 9 lists the eleven existing stores that are within a 3-mile radius of the proposed Center. Exhibit 18 also maps these stores, most of which are located along El Camino Real in southern Carlsbad and Encinitas.

Table 9
Market Area Grocery Stores within 3 miles of the Center

Store Name	Location	Market Orientation	Miles from La Costa Town Square Shopping Center
Henry's Market Place	3243 Camino de Los Coches	Niche/Upscale	0.40
Jimbo's Naturally	1923 Calle Barcelona	Niche/Upscale	1.54
Von's	7710 El Camino Real	Conventional	1.80
Stater Brothers	1048 N. El Camino Real	Conventional	1.82
Albertson's	7660 El Camino Real	Conventional	1.87
Von's	6951 El Camino Real	Conventional	2.32
Von's	262 N. El Camino Real	Conventional	2.45
Ralph's	125 N. El Camino Real	Conventional	2.70
Albertson's	134 N. El Camino Real	Conventional	2.71
Trader Joe's	115 N. El Camino Real	Niche/Upscale	2.73
Henry's Market Place	1327 Encinitas Boulevard	Niche/Upscale	2.82

Sources: Claritas and CBRE Consulting

The grocery stores in this group generally fall into the categories of conventional supermarkets or high-end niche grocery stores. In general, conventional supermarkets tend to be larger while high-end niche grocery stores typically range from 10,000 to 30,000 square feet, similar to the sizes of the proposed Trader Joe's and Whole Foods Market. Given the 65,000-square-foot planned size of the Center's supermarket anchor, CBRE Consulting assumes that this store will operate with a conventional format with a wide selection of grocery items (e.g., fresh meat and seafood, a bakery, fresh produce, wine, etc.) and other services (e.g., a bank branch, a florist, and possibly a restaurant).

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It is possible that all eleven stores might experience an initial diversion in sales as shoppers compare retail offerings at the Center's grocery store anchor and other new supermarkets. However, of the stores visited, CBRE Consulting believes that the Von's store at 7710 El Camino Real in Carlsbad is the most at risk of experiencing significant sales diversions on a cumulative basis for the reasons that follow, including findings based upon field examination.

- This is the closest conventional supermarket to La Costa Town Square shopping center.
- The retail space is especially outdated, based on its size (30,800 square feet), general condition (e.g., older fixtures, floors, lighting, etc.), and the lack of amenities offered at most newer grocery stores.
- Store shelves were not well-stocked, and the store and parking lot were not as well-maintained as other competing supermarkets in the market area.
- Shopper volume was relatively low, in part because the store already competes with a newer Albertson's supermarket (7660 El Camino Real) at a larger center located across Rancho Sante Fe Road, as well as two other Von's stores within a short distance in either direction on El Camino Real.
- This older Von's store anchors La Costa Towne Center, which was built in 1978 and does not appear to have been renovated since then based on Claritas data and field research conducted by CBRE Consulting. The retail center has low visibility from the street as the tenant mix of retail and office users faces inward on a flag-shaped parcel off of El Camino Real.

CBRE Consulting contacted a Cushman & Wakefield real estate broker who manages the leasing for the La Costa Towne Center, and he indicated that another anchor may be a better fit than the existing Von's. Cushman & Wakefield has approached Von's in the past to see if the store would be willing to negotiate an early termination of its lease that would allow a new retailer to take over the space. However, Von's has declined these offers and appears committed to the location. Still, if the Von's chain decides to close the store within the next several years, the Cushman & Wakefield broker is confident that the space could be re-tenanted within one year. A furniture store or decorator showroom would be a good match with the retail center's "home specialty/home décor" focus. Similarly, Crate & Barrel, Cost Plus World Markets, Pier One Imports, or even PetSmart are viewed as potential complementary anchor stores. In addition, the central location could attract other high-end retail tenants or lead to re-positioning of the space to an alternate use. According to data from CoStar, the vacancy rate at La Costa Towne Center has not been higher than 4.0 percent since 2000, which is also indicative of the center's ability to attract and retain tenants.

The other conventional grocery stores that may experience moderate sales diversions are the Albertson's at 7660 El Camino Real and another Von's store at 6951 El Camino Real, because of their proximity to La Costa Town Square shopping center, and to the planned stores at Bressi Ranch Center. However, these stores are larger, newer, and offer the range of products and services that should allow them to compete more effectively with the proposed supermarkets. In addition, the Bressi Ranch residential development and other new housing projects just to the north of the market area are likely to create new demand for these two stores that is not reflected in the market area analysis.

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The nearby niche/upscale Food Stores – Henry’s Market Place and Jimbo’s Naturally – may experience some diversions, though their products often complement rather than compete with the offerings at conventional supermarkets. Consequently, Henry’s Market Place in particular may eventually benefit from its proximity to La Costa Town Square shopping center as more customers are drawn to the immediate area.

If the cumulative sales diversions prove large enough that one or more of these supermarkets have to close or relocate, the demand for retail space appears strong enough to absorb any related vacancy. Most of the nearby stores are in shopping centers that are relatively new and that have low vacancy rates. In addition, the brokers and developers that CBRE Consulting interviewed have indicated that even older spaces, such as the Von’s at 7710 El Camino Real, could be successfully re-positioned if a large vacancy occurs.

Potential Impacts on City of Carlsbad Sales Tax Revenues

As mentioned in the Projected Retail Sales section, La Costa Town Square shopping center is expected to generate \$90.1 million in taxable sales in 2012 and provide an estimated \$910,000 in sales tax revenues to the City of Carlsbad General Fund based on the initial 377,899-square-foot development program that is analyzed in this report. Adjusting for the revised 335,400-square-foot development plan (see Table 1 and the related discussion on pages 1-2), CBRE Consulting estimates that the taxable sales would be \$82.0 million in 2012, which translates to about \$828,000 in sales tax revenues for the City of Carlsbad.²⁷

Since some diverted sales are likely to occur, the City’s net sales tax increase will be less than those total estimates for the respective scenarios as follows:

- For the larger, initial development program, CBRE Consulting estimates that about half of the \$346,000 in Apparel sales diversions, or \$173,000 will come from other Carlsbad retailers and half will come from other retailers in other parts of the market area. For the Food Store diversions, 30 percent of the total (\$13.9 million) is likely to be related to taxable sales.²⁸ In addition, since some of that sales diversion will come from other cities and unincorporated sections of the market area, the analysis estimates that \$8.3 million, or 60 percent of the taxable amount, of the Food Store taxable sales diversion would come from the City of Carlsbad. Therefore, the net taxable sales associated with the Center in 2012 are calculated at \$81.6 million²⁹, which translates to a net sales tax amount of about \$824,000 for the City of Carlsbad General Fund.
- For the revised 335,400-square-foot development program, CBRE Consulting used similar assumptions to estimate net taxable sales of \$74.6 million, which will generate 2012 net sales taxes of \$753,000 for the City of Carlsbad. These calculations are based on 2012 sales levels for the Center of \$82.0 million less \$7.4 million in taxable sales diversions related to Food Stores within the City of Carlsbad.

²⁷ Total sales for both development programs are expected to be higher than net taxable sales because a significant portion of the Food Store sales and a percentage of the General Merchandise sales are not taxable.

²⁸ Per industry research and discussions with the California Board of Equalization, an estimated 70 percent of Food Store sales are non-taxable.

²⁹ Based on \$90.1 million in taxable sales for the Center less about \$8.5 million in taxable sales diversions.

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URBAN DECAY DETERMINATION

For the purpose of this analysis, urban decay is defined as physical deterioration that is so prevalent and substantial it impairs the proper utilization of affected real estate or the health, safety, and welfare of the surrounding community. Physical deterioration includes, but is not limited to, abnormally high business vacancies, abandoned buildings and commercial sites, boarded doors and windows, parked trucks and long term unauthorized use of properties and parking lots, extensive gang or offensive graffiti painted on buildings, dumping of refuse or overturned dumpsters on properties, dead trees or shrubbery, and uncontrolled weed growth or homeless encampments.

Approach to Determining Urban Decay Potential

CBRE Consulting engaged in several tasks to assess the probability of urban decay ensuing from development of La Costa Town Square shopping center. These tasks revolved around assessing the potential for closed market area store spaces, if any, to remain vacant for a prolonged period of time or to be leased to other retailers within a reasonable marketing period.

Several commercial real estate brokers, developers, and economic development and planning officials were contacted regarding the health of the local retail market and the depth of prospective demand for retail space. The purpose of these inquiries was to determine if sufficient retailer demand exists to absorb vacated space in the event that market area retailers close due to the negative impacts associated with the development of La Costa Town Square shopping center or the Center's associated cumulative impacts.

Potential Store Closure and Retailer Demand

The findings above under Prospective La Costa Town Square Shopping Center Sales Impacts indicate that Apparel Stores would be the only retail category with potential sales diversions, and the related amounts are not viewed as significant. If all identified cumulative retail developments are built as proposed (as analyzed in the Prospective Cumulative Sales Impacts section), the sales impacts to Apparel Stores will increase but are still not considered significant. There will also be larger sales diversions in the Food Stores category.

It is anticipated that these impacts will be broadly spread across the market area and among many retailers. Such impacts can lead to any one or more of the following consequences:

1. sales diversion from existing market area retailers;
2. slower than anticipated absorption of space in the Center and other proposed retail developments;
3. lower initial sales volumes for stores at the Center and other proposed retail developments; and
4. a longer than anticipated period of time to reach stabilized sales in new developments including the Center and other proposed major retail projects;

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In other words, the estimated sales impacts will be felt by two types of businesses/retailers: existing retailers (#1 above); and the developers and future tenants of the other retail centers proposed for the primary market area (#2-4 above). Some existing Food Stores could sustain a short-term reduction in sales while others may not be able to do so and would be at risk of closing. It is possible that the introduction of the retail space at the Center and at the other cumulative projects could contribute to the closure of some marginally performing existing stores. However, offsetting the potential for store closures is the continuing investment in the improvement of the market area's retail stock.

Urban Decay Conclusion

In developing a conclusion regarding the potential for urban decay, CBRE Consulting relied on the definition presented earlier in this section, which focused on determining whether or not physical deterioration in the market area would likely result from the opening of the Center and other cumulative retail projects. CBRE Consulting's conclusion is based on consideration of current market area conditions, findings regarding diverted sales, and re-tenanting potential, as summarized below:

- **Current Market Conditions:** The field research, market research, and interviews that CBRE Consulting conducted each indicated that there is strong demand for retail space in the market area, which is supported by recent and projected household growth. Several contacts suggested that the retail vacancy rate was less than 5.0 percent, and research reports from Cushman & Wakefield and CB Richard Ellis each indicated vacancy rates of 3.9 percent or less for trade areas that overlap with the market area. In addition, CBRE Consulting did not identify any persistent vacancies of large retail spaces in the local area.
- **Diverted Sales:** CBRE Consulting estimates that if all identified cumulative projects are developed as planned, the sales impacts could be significant enough to create vacancies in the market, most likely among less competitive, older stores in the Food Stores category.
- **Re-tenanting Potential:** The existing market area shopping centers have low vacancy rates, which is an indication of the market area's stable performance and ability to re-tenant vacancies as they may occur. The redevelopment of El Camino Promenade to accommodate Staples and other tenants, the current construction of Rancho La Costa Village, and the planned renovation of Flower Hill Promenade are each examples of how local shopping centers are adapting to meet local demand. Therefore, vacated retail spaces have the potential to be successfully re-tenanted. However, if a large space closes, it is not uncommon for re-tenanting to take a year or longer, similar to what is occurring with the 13,000-square-foot former Tweeter store at Encinitas Marketplace.

CBRE Consulting's research and analysis indicates that the retail market in the market is relatively strong based on current retail performance and expectations of continued household growth, particularly in the market area. The study findings conclude that while some existing retailers may be negatively impacted by the Center and the other cumulative retail projects, store closures that may occur will likely be re-tenanted within a reasonable timeframe. Moreover, re-leasing activity can be beneficial to a market area by expanding opportunities for strong retailers and providing opportunities for retailers new to the market. Based upon these findings, CBRE Consulting

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concludes that the development of La Costa Town Square shopping center and the identified cumulative projects will not contribute to urban decay in the market area.

CLOSING COMMENT

CBRE Consulting appreciated the opportunity to work on this assignment and to become familiar with La Costa Town Square shopping center and the local market conditions. If you have any questions regarding our findings or the supporting analysis, we would welcome the chance to discuss them with you.

Sincerely,



Gregory G. Keller
Managing Director



Amy L. Herman, AICP
Senior Managing Director

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

CBRE Consulting has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although CBRE Consulting believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared. Neither all nor any part of the contents of this study shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of CBRE Consulting.

APPENDIX A: EXHIBITS

Exhibit 1
Development Program Summary and Estimated Sales Per Square Foot
La Costa Town Square Shopping Center
2006 and 2012

Retailers (1)	Type of Retail	Square Footage (1)	Estimated Sales Per Square Foot (2)	Estimated Sales 2006 Dollars	Estimated Sales 2012 Dollars (3)	Building Number
Anchor Tenants						
National Department Store	Apparel/Home Furnishings/Other	98,497	\$252	\$24,820,788	\$29,880,457	27
Grocery Store	Food Store	65,000	\$463	\$30,063,152	\$36,191,466	16
Cinema Operator	Cinema	53,000	N/A	N/A	N/A	29
Non-Anchor Tenants						
General Merchandise Retailers	General Merchandise	18,060	\$208	\$3,764,438	\$4,531,811	13
Apparel Retailers	Apparel	34,000	\$261	\$8,885,170	\$10,696,395	20,21,22,23
Home Furnishings/Appliances Retailers	Home Furnishings/Appliances	10,000	\$239	\$2,385,141	\$2,871,348	26
Eating and Drinking Retailers	Eating and Drinking	42,700	\$386	\$16,472,409	\$19,830,276	1-4,17-19,25
Service Station	Auto Related	3,500	\$1,486 (4)	\$5,200,000 (4)	\$6,260,010	12
Other Retailers	Other Retail	13,942	\$330 (5)	\$4,600,860	\$5,538,736	7-10,24
Personal and Professional Services Providers	Personal/Professional Services	24,200	N/A	N/A	N/A	5,6,11,14,15,28
Tenant Warehouse	N/A	15,000	N/A	N/A	N/A	N/A
Totals		377,899		\$96,191,958	\$115,800,498	

Sources: La Costa Town Square LLC; U.S. Dept. of Labor Bureau of Labor Statistics, Consumer Price Index (CPI); Retail MAXIM, "Perspectives on Retail Real Estate and Finance," September-August 2006; California State Board of Equalization (BOE), "Taxable Sales in California, 2006"; and CBRE Consulting.

(1) Based on information provided by La Costa Town Square LLC. Specific retail tenants have not been identified for all of the retail spaces; however, prospective types of tenants are identified for the majority of space based upon marketing goals for the project.

(2) For retail sales per square foot figures other than the Service Station and Other Retailers, CBRE Consulting used figures from Retail MAXIM for 2005 and inflated to 2006 dollars using the Consumer Price Index for urban western consumers. The National Department Store is estimate is based on a simple average of the sales per square foot figures for department store chains with an apparel focus, including JC Penney, Kohl's, Macy's/Bloomingdale's, Nordstrom, and Ross Stores.

(3) CBRE Consulting adjusted the sales figures to 2012 dollars using the Consumer Price Index for urban western consumers for the 2006-2008 period and an assumed inflation rate of 3.0 percent per year for 2008-2012.

(4) CBRE Consulting divided the total 2006 sales of service stations by the number of related business permits for three areas (i.e., the City of Carlsbad, the City of Encinitas, and San Diego County), and found sales averages of \$5.1 million - \$5.3 million annually. CBRE Consulting assumed that the service station at the La Costa Town Square center will perform at the average level, with sales estimated at \$5.2 million in 2006 dollars. This sales level was divided by the square footage of the service station to calculate the 2006 sales per square foot estimate.

(5) CBRE Consulting estimate.

Exhibit 2
Estimated Sales by Retail Category
La Costa Town Square Center
In 2012 Dollars

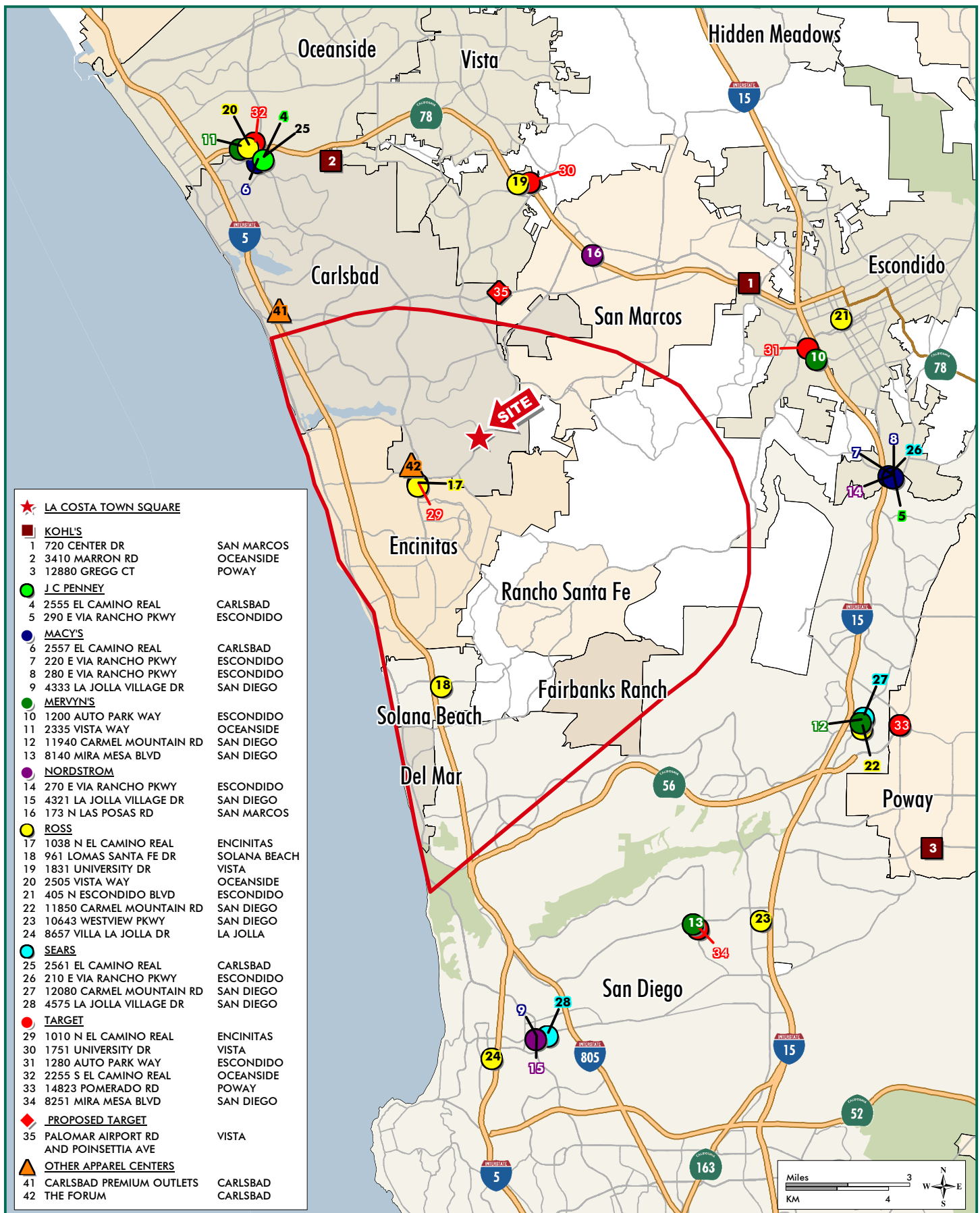
Store	Total Estimated Sales	Apparel	General Merchandise	Food Stores	Eating & Drinking Places	Home Furnishings & Appliances	Service Stations	Other Retail
Anchor Tenants								
National Department Store (1)	\$29,880,457	\$20,390,424				\$4,332,666		\$5,157,367
Grocery Store	\$36,191,466			\$36,191,466				
Non-Anchor Tenants								
General Merchandise Retailers	\$4,531,811		\$4,531,811					
Apparel Retailers	\$10,696,395	\$10,696,395						
Home Furnishings/Appliances Retailers	\$2,871,348					\$2,871,348		
Eating and Drinking Retailers	\$19,830,276				\$19,830,276			
Service Station	\$6,260,010						\$6,260,010	
Other Retailers	\$5,538,736							\$5,538,736
Total	\$115,800,498	\$31,086,818	\$4,531,811	\$36,191,466	\$19,830,276	\$7,204,014	\$6,260,010	\$10,696,103

Sources: La Costa Town Square LLC; U.S. Dept. of Labor Bureau of Labor Statistics, Consumer Price Index (CPI); Retail MAXIM, "Perspectives on Retail Real Estate and Finance," September-August 2006; California State Board of Equalization (BOE), "Taxable Sales in California, 2006"; 10-K reports for the most recently available fiscal year (2007) for JC Penney Company Inc., Kohl's Corporation, Nordstrom Inc., Macy's Inc., and Ross Stores Inc.

Notes:

(1) CBRE Consulting estimates based on merchandise sales by retail segment published in the 10-K reports for JC Penney Company Inc., Kohl's Corporation, Nordstrom Inc., Macy's Inc., and Ross Stores Inc. Each company's reporting is based on a 2007 fiscal year, though the definition of the fiscal year dates varies by corporation. Apparel sales ranged between 60.0 percent to 76.0 percent for each of the sample companies, with an average level of 68.2 percent.

Exhibit 3: Market Area and Environs Competitive Apparel Stores



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Exhibit 4
Market Area Population and Household Estimates and Projections
La Costa Town Square Market Area and San Diego County
2000 - 2017

Area	2000	2005	2006	2007	2010	2012	2017	2020	Average Annual Growth Rates		
									2000-06	2006-12	2012-17
Population											
San Diego County (1)	2,813,833	3,038,579	3,064,113	3,098,269	3,199,706	3,267,016	3,441,549	3,550,714	1.43%	1.07%	1.05%
Market Area Percentage of County (2)	5.38%	5.67%	5.73%	5.79%	5.93%	6.03%	6.27%	6.42%			
Market Area (3)	151,432	172,370	175,659	179,498	189,791	196,849	215,663	227,804	2.50%	1.92%	1.84%
Households											
San Diego County (4)	1,040,100	1,101,300	1,113,965	1,126,776	1,166,100	1,183,286	1,227,367	1,254,600	1.15%	1.01%	0.73%
Market Area Percentage of County (5)	6.14%	6.51%	6.58%	6.65%	6.84%	6.93%	7.28%	7.50%			
Market Area (6)	63,905	71,646	73,304	74,889	79,812	82,011	89,332	94,035	2.31%	1.89%	1.72%

Sources: State of California Department of Finance "E-5 Population and Housing Estimates, for Cities, Counties, and the State, 2001–2008, with 2000 Benchmark"; San Diego Association of Governments (SANDAG) "2030 Regional Growth Forecast"; Claritas; and CBRE Consulting.

Notes:

- (1) The California Department of Finance provides county-level population estimates annually through 2007 and projections for 2010 and 2020. CBRE Consulting estimated the 2010-2017 average annual growth rate using the 2010 and 2020 projections and applied that rate to calculate population figures for 2012 and 2017.
- (2) CBRE Consulting used Claritas data to estimate the market area population as a percentage of San Diego County figures for selected years. Estimates of those percentages were applied for 2005, 2006, 2010, and 2011 based on the interim growth rates in the 2000, 2007, and 2012 Claritas data. The 2017 and 2020 population projections are also based on the Claritas data, which indicates that the Market Area is likely to grow faster than the County as a whole.
- (3) The Market Area population estimates are based on the market area percentage of the County for a given year multiplied by the corresponding population estimate for San Diego County.
- (4) SANDAG provided San Diego County households estimates and projections for 2000, 2010, and 2020, and CBRE Consulting estimated the increments for interim years.
- (5) CBRE Consulting used Claritas data to estimate the market area households as a percentage of San Diego County figures for selected years. Estimates of those percentages were applied for 2005, 2006, 2010, and 2011 based on the interim growth rates of the 2000, 2007, and 2012 Claritas data. The 2017 and 2020 household projections are also based on the Claritas data, which indicates that the Market Area is likely to grow faster than the County as a whole.
- (6) The Market Area household estimates are based on the market area percentage of the County for a given year multiplied by the corresponding SANDAG household estimate for San Diego County.

Exhibit 5
Taxable Sales for Incorporated Cities included in the Market Area
2006 Dollars (000's)

2006 Taxable Retail Sales without Adjustments for Suppressed Categories (1)

Type of Retailer	Del Mar [A]	Encinitas [B]	Solana Beach [C]	Total [D = A + B + C]
Apparel stores	\$13,364	\$25,626	\$19,094	\$58,084
General merchandise stores	**	96,977	15,438	\$112,415 (2)
Food stores	1,651	71,703	**	\$73,354 (2)
Eating and drinking places	70,393	130,857	50,817	\$252,067
Home furnishings/appliances	1,954	80,770	24,724	\$107,448
Bldg. matrl./farm implements	**	**	**	** (2)
Auto dealers and auto supply	**	119,270	**	\$119,270 (2)
Service stations	**	87,069	**	\$87,069 (2)
Other retail stores	25,140	289,446	122,020	\$436,606 (3)
Total	\$112,502	\$901,718	\$232,093	\$1,246,313

2006 Taxable Sales with Estimates for Suppressed Categories (4)

Type of Retailer	Del Mar [A]	Encinitas [B]	Solana Beach [C]	Total [D = A + B + C]
Apparel stores	\$13,364	\$25,626	\$19,094	\$58,084
General merchandise stores	0	\$96,977	15,438	\$112,415
Food stores	1,651	\$71,703	17,543	\$90,897
Eating and drinking places	70,393	\$130,857	50,817	\$252,067
Home furnishings/appliances	1,954	\$80,770	24,724	\$107,448
Bldg. matrl./farm implements	1,143	\$153,904	32,344	\$187,391
Auto dealers and auto supply	1,600	\$119,270	1,306	\$122,176
Service stations	3,657	\$87,069	1,437	\$92,162
Other retail stores	18,741	\$135,542	69,390	\$223,672
Total	\$112,502	\$901,718	\$232,093	\$1,246,313

Sources: California Board of Equalization (BOE) "Taxable Sales in California, 2006"; Claritas reports; and CBRE Consulting.

Notes:

(1) Taxable Retail Sales as reported by the California Board of Equalization in which selected categories for each of the three cities have been collapsed into the Other retail stores category

(2) Retail categories in which the totals are understated based on the BOE's approach to suppressing data to protect confidentiality.

(3) The total for the Other retail stores category is overstated based on the BOE's approach of including data from suppressed categories among these figures for each of the three cities.

(4) CBRE Consulting relied on retail sales data from Claritas to estimate the share of Other Retail sales that should be allocated to the suppressed categories. A sample Claritas report and a summary of how CBRE Consulting categorized the Claritas figures is shown in Appendix B.

Exhibit 6
**Calculation of Market Area Taxable Sales from Sections of Three Incorporated Cities
2006 Dollars (\$000's)**

Retail Categories	Claritas Data, 2007 (1)			BOE Data, 2006	
	City of Carlsbad	City of Carlsbad Section of the Market Area	Ratio of Market Area Portion to the Entire City	City of Carlsbad	City of Carlsbad Section of the Market Area
	A	B	C=B/A	D	E=D*C
Apparel Stores	\$298,400	\$28,200	9.5%	\$226,447	\$21,400
General Merchandise Stores	\$406,500	\$130,100	32.0%	272,838	\$87,322
Food Stores	\$210,000	\$117,600	56.0%	69,562	\$38,955
Eating and Drinking Places	\$281,400	\$45,800	16.3%	178,867	\$29,112
Home Furnishings and Appliances	\$93,300	\$27,400	29.4%	59,933	\$17,601
Building Materials	\$61,200	\$8,000	13.1%	46,039	\$6,018
Auto Dealers and Auto Supplies	\$889,600	\$16,900	1.9%	707,099	\$13,433
Service Stations	\$132,900	\$9,700	7.3%	137,497	\$10,036
Other Retail Stores	\$353,900	\$116,400	32.9%	211,888	\$69,691
Total				\$1,910,170	\$293,567

Retail Categories	Claritas Data, 2007 (1)			BOE Data, 2006	
	City of San Diego	City of San Diego Section of the Market Area	Ratio of Market Area Portion to the Entire City	City of San Diego	City of San Diego Section of the Market Area
	A	B	C=B/A	D	E=D*C
Apparel Stores	\$1,501,500	\$13,600	0.9%	\$924,301	\$8,372
General Merchandise Stores	\$2,634,100	\$3,700	0.1%	2,236,087	\$3,141
Food Stores	\$2,956,700	\$177,300	6.0%	843,800	\$50,599
Eating and Drinking Places	\$2,957,000	\$52,200	1.8%	2,466,681	\$43,544
Home Furnishings and Appliances	\$1,428,800	\$10,900	0.8%	706,043	\$5,386
Building Materials	\$1,922,800	\$30,000	1.6%	1,427,987	\$22,280
Auto Dealers and Auto Supplies	\$3,606,900	\$700	0.0%	2,132,207	\$414
Service Stations	\$1,338,300	\$49,200	3.7%	1,567,032	\$57,609
Other Retail Stores	\$3,638,500	\$64,500	1.8%	2,527,653	\$44,808
Total				\$14,831,791	\$236,153

Retail Categories	Claritas Data, 2007 (1)			BOE Data, 2006	
	City of San Marcos	City of San Marcos Section of the Market Area	Ratio of Market Area Portion to the Entire City	City of San Marcos	City of San Marcos Section of the Market Area
	A	B	C=B/A	D	E=D*C
Apparel Stores	\$8,800	\$0	0.0%	12,264 (1)	\$0
General Merchandise Stores	\$97,100	\$0	0.0%	150,631	\$0
Food Stores	\$123,200	\$200	0.2%	43,919	\$71
Eating and Drinking Places	\$157,900	\$100	0.1%	102,658	\$65
Home Furnishings and Appliances	\$154,600	\$200	0.1%	145,485	\$188
Building Materials	\$362,600	\$300	0.1%	233,043 (1)	\$193
Auto Dealers and Auto Supplies	\$106,100	\$200	0.2%	68,147	\$128
Service Stations	\$176,100	\$300	0.2%	88,070	\$150
Other Retail Stores	\$152,100	\$200	0.1%	211,974 (1)	\$279
Total				\$1,056,191	\$1,075

Sources: California Board of Equalization (BOE) Taxables Sales, 2006; Claritas Retail Opportunity Gap Report (Store Type); and CBRE Consulting.

Notes:

(1) CBRE Consulting classified retail sales estimates provided by Claritas at both the full city level and for the portion of the city that is within the market area. A sample Claritas report and a summary of how CBRE Consulting categorized the Claritas figures is shown in Appendix B.

Exhibit 7
Calculation of Sales for Unincorporated Areas Within the Market Area
2006

Type of Retailer	San Diego County Unincorporated Areas			Market Area Unincorporated Area Population (3) [D = B * 3.6%]	Market Area Unincorporated Area Sales in \$000's [E = C*D]
	Taxable Sales in	Population (2)	Sales Per Capita		
	\$000's (1) [A]				
		[B]	[C = A/B*1,000]		
Apparel stores	\$63,288	473,801	\$134	17,034	\$2,275
General merchandise stores	174,706	473,801	369	17,034	\$6,281
Food stores	227,524	473,801	480	17,034	\$8,180
Eating and drinking places	234,319	473,801	495	17,034	\$8,424
Home furnishings/appliance	44,019	473,801	93	17,034	\$1,583
Bldg. matrl./farm implements	124,102	473,801	262	17,034	\$4,462
Auto dealers and auto supply	92,117	473,801	194	17,034	\$3,312
Service stations	327,015	473,801	690	17,034	\$11,756
Other retail stores	235,861	473,801	498	17,034	\$8,479
Total	\$1,522,951		\$3,214		\$54,752

Sources: California Board of Equalization, "Taxable Sales in 2006, Unincorporated Areas of San Diego County"; California Department of Finance (DOF), "E-5 City/County Population and Housing Estimates for 2006"; Claritas; and CBRE Consulting.

Notes:

(1) California BOE, "Taxable Sales in 2006, Unincorporated Areas of San Diego County"; data prepared for CBRE Consulting by request.

(2) From the California DOF, "E-5 City/County Population and Housing Estimates for 2006."

(3) The total 2006 unincorporated area population from Column B multiplied by 3.6 percent, according to a Claritas estimate that 3.6 percent of the unincorporated area population was within the market area based on 2007 data.

Exhibit 8
Total Market Area Sales Estimate
2006 Dollars (000's)

Type of Retailer	Taxable Sales					Total [F=A+B+C+D+E]	Estimated Market Area Retail Sales (4) [G]
	Incorporated Cities within the Market Area (1) [A]	Market Area Section of Carlsbad (2) [B]	Market Area Section of San Diego (2) [C]	Market Area Section of San Marcos (2) [D]	Unincorporated Areas within the Market Area (3) [E]		
Apparel stores	\$58,084	\$21,400	\$8,372	\$0	\$2,275	\$81,759	\$81,759
General merchandise stores	\$112,415	\$87,322	\$3,141	\$0	\$6,281	206,017	243,788
Food stores	\$90,897	\$38,955	\$50,599	\$71	\$8,180	138,032	460,106
Eating and drinking places	\$252,067	\$29,112	\$43,544	\$65	\$8,424	289,603	289,603
Home furnishings/appliances	\$107,448	\$17,601	\$5,386	\$188	\$1,583	126,631	126,631
Bldg. matrl./farm implements	\$187,391	\$6,018	\$22,280	\$193	\$4,462	197,871	197,871
Auto dealers and auto supply	\$122,176	\$13,433	\$414	\$128	\$3,312	138,920	138,920
Service stations	\$92,162	\$10,036	\$57,609	\$150	\$11,756	113,954	113,954
Other retail stores	\$223,672	\$69,691	\$44,808	\$279	\$8,479	301,843	301,843
Total	\$1,246,313	\$293,567	\$236,153	\$1,075	\$54,752	\$1,594,632	\$1,954,477

Sources: Exhibits 5, 6, and 7; and CBRE Consulting.

Notes:

(1) See Exhibit 5, bottom half estimates for the total taxable sales for Del Mar, Encinitas, and Solana Beach combined.

(2) Calculated per Exhibit 6.

(3) Calculated per Exhibit 7.

(4) Column G represents all retail sales (taxable and non-taxable) based on upward adjustments to the general merchandise and food store amounts in Column F to reflect the non-taxable sales in those categories. CBRE Consulting estimates that only 30 percent of food store sales and 33 percent of drug store sales are taxable, based on discussions with the California BOE and examination of U.S. Census data. In San Diego County, drug store sales represent 9.03 percent of all general merchandise sales, and CBRE Consulting applied that percentage to the market area calculation in Column F and then adjusted upward for non-taxable sales.

Exhibit 9
La Costa Town Square
Retail Demand, Sales Attraction, and Spending Leakage Analysis (1)
Market Area (Primary Market Area)
2006

Type of Retailer	San Diego County	Market Area		Market Area Total (In \$ 000's)			
	Avg. Sales Per Household (2)	Spending	Sales	Spending	Sales	Attraction/ (Leakage)	Percent
Apparel Stores	\$1,714	\$1,716	\$1,115	\$125,823	\$81,759	(\$44,064)	(35.0%)
General Merchandise Stores (4)	\$5,943	\$5,333	\$3,326	\$390,949	\$243,788	(\$147,161)	(37.6%)
Food Stores (5)	\$5,770	\$4,649	\$6,277	\$340,760	\$460,106	\$119,346	25.9%
Eating and Drinking Places	\$4,059	\$4,477	\$3,951	\$328,204	\$289,603	(\$38,601)	(11.8%)
Home Furnishings and Appliances	\$1,357	\$1,447	\$1,727	\$106,057	\$126,631	\$20,574	16.2%
Building Materials (6)	\$3,248	\$3,808	\$2,699	\$279,171	\$197,871	(\$81,300)	(29.1%)
Auto Dealers and Auto Supplies	\$5,922	\$10,441	\$1,895	\$765,336	\$138,920	(\$626,416)	(81.8%)
Service Stations	\$3,222	\$3,163	\$1,555	\$231,834	\$113,954	(\$117,880)	(50.8%)
Other Retail Stores (7)	\$4,802	\$3,838	\$4,118	\$281,328	\$301,843	\$20,515	6.8%
Total	\$36,037	\$38,872	\$26,663	\$2,849,463	\$1,954,477	(\$894,986)	(31.4%)

Sources: California State Board of Equalization (BOE), Taxable Sales in California, 2006; California Department of Finance; San Diego Association of Governments (SANDAG); Claritas; and CBRE Consulting.

(1) All figures are expressed in constant 2006 dollars.

(2) 2006 Household figures in the Market Area of 73,304 and San Diego County of 1,113,965 according to estimates shown in Exhibit 4.

(3) Analysis assumes market area average household income estimates as reported by Claritas of \$111,355 in 2000, \$128,994 in 2007, and \$140,016 in 2012.

(4) Includes general merchandise and drug stores. Drug stores are assumed to comprise 9.03 percent of total general merchandise sales based on CBRE Consulting's analysis of control area averages. Taxable transactions for drug stores have been divided by 0.33 to account for non-taxable sales, which are estimated to be about two-thirds of overall drug store sales.

(5) Taxable transactions for food stores have been divided by 0.30 to account for non-taxable sales, which are estimated to be 70 percent of all food store sales.

(6) The Building Materials group includes hardware stores, plumbing and electrical supplies, paint and wallpaper products, glass stores, farm implement dealers, and lumber.

(7) Other retail stores includes packaged liquor stores, gifts, art goods and novelties, sporting goods, florists, photographic equipment and supplies, musical instruments, stationery and books, jewelry, office and school supplies, second-hand merchandise, farm and garden supply stores, mobile homes/trailers and campers, boat and motorcycle dealers, and miscellaneous other retail stores.

Exhibit 10
Estimated Retail Demand, Sales Attraction, and Spending Leakage
Associated with Existing Household Base (1)
La Costa Town Square Market Area
2012 (\$ 000's)

Retail Category	La Costa Town Square Retail Center Market Area		
	2012	2012	2012
	Spending (2)	Sales (2)	Leakage
	A	B	C = B - A
Apparel	\$151,472	\$98,426	(\$53,046)
General Merchandise	\$470,644	\$293,484	(\$177,160)
Food Stores	\$410,223	\$553,898	\$143,674
Eating and Drinking	\$395,108	\$348,638	(\$46,470)
Home Furnishings/Appliances	\$127,677	\$152,445	\$24,768
Building Materials	\$336,080	\$238,207	(\$97,873)
Auto Dealers/Supplies	\$921,348	\$167,239	(\$754,109)
Service Stations	\$279,093	\$137,184	(\$141,909)
Other	\$338,676	\$363,373	\$24,697
Total	\$3,430,320	\$2,352,893	(\$1,077,427)

Sources: Exhibit 9; U.S. Bureau of Labor Statistics, CPI Urban Western Consumers; and CBRE Consulting.

Notes

(1) Based on the 2006 household base, which matches the benchmark retail sales data.

(2) Data from Exhibit 9 adjusted for inflation from 2006 based on the Consumer Price Index for all urban consumers in the Western U.S. region as defined by the U.S. Bureau of Labor Statistics. Inflation for the period 2006-2008 is 3.42 percent. Inflation for the periods 2008-2012 estimated to be 3.00 percent per year.

Exhibit 11**Average Household Retail Spending by Category and Aggregate New Demand
La Costa Town Square Market Area
2006 - 2012**

Retail Category	La Costa Town Square Retail Center Market Area		
	2006 (1)	2012 (2)	New Demand (3)
Apparel Stores	\$1,716	\$2,066	\$17,992,300
General Merchandise Stores	\$5,333	\$6,420	\$55,904,524
Food Stores	\$4,649	\$5,596	\$48,727,613
Eating and Drinking Places	\$4,477	\$5,390	\$46,932,161
Home Furnishings and Appliances	\$1,447	\$1,742	\$15,165,838
Building Materials	\$3,808	\$4,585	\$39,920,584
Auto Dealers and Auto Supplies	\$10,441	\$12,569	\$109,440,634
Service Stations	\$3,163	\$3,807	\$33,151,519
Other Retail Stores	\$3,838	\$4,620	\$40,228,984
Total	\$38,872	\$46,796	\$407,464,157

Sources: U.S. Bureau of Labor Statistics, CPI Urban Western Consumers; and CBRE Consulting.

(1) See Exhibit 9.

(2) Projections for 2012 were adjusted for inflation from 2006 baseline figures. Inflation is estimated from the Consumer Price Index (CPI) for the Western U.S. at 3.42 percent annually from 2006 to 2008. This rate is published by the U.S. Department of Labor, Bureau of Labor Statistics. An estimate of 3.0 percent per year is used for all subsequent years.

(3) Represents the total new demand generated by the 8,707 new households added to the market area between 2006 and 2012. See Exhibit 4 for household projections.

Exhibit 12
New Demand Generated by Household Growth
La Costa Town Square Shopping Center Capture Rates
Market Area Households Formed Between 2006 and 2012
2012

Retail Category	New Demand from Household Growth (1)	Market Area Capture Rate (2)	Captured Market Area Sales	La Costa Town Square Capture Rate (3)	La Costa Town Square Captured Demand	All Other Retailers Capture Rate	Balance of Demand for Other Market Area Retailers (4)
	A	B	C=A*B	D	E=C*D	F=100-D	G=F*C
Apparel	\$17,992,300	65%	\$11,694,995	32%	\$3,742,398	68%	\$7,952,597
General Merchandise	\$55,904,524	65%	\$36,337,940	6%	\$2,180,276	94%	\$34,157,664
Food Stores (5)	\$48,727,613	90%	\$43,854,851	11%	\$4,824,034	89%	\$39,030,818
Eating and Drinking	\$46,932,161	80%	\$37,545,729	10%	\$3,754,573	90%	\$33,791,156
Home Furnishings	\$15,165,838	90%	\$13,649,255	9%	\$1,228,433	91%	\$12,420,822
Building Materials	\$39,920,584	70%	\$27,944,409	NA	\$0	100%	\$27,944,409
Auto Dealers/Supplies (5)	\$109,440,634	NA	NA	NA	\$0	NA	NA
Service Stations	\$33,151,519	70%	\$23,206,063	9%	\$2,088,546	91%	\$21,117,518
Other	\$40,228,984	60%	\$24,137,390	7%	\$1,689,617	93%	\$22,447,773
Totals (6)	\$407,464,157		\$218,370,633		\$19,507,877		\$198,862,755

Source: CBRE Consulting, Inc.

Notes

(1) See Exhibit 11.

(2) Assumptions developed by CBRE Consulting. This is the proportion of new demand generated by market area households that is estimated to be captured by stores in the market area (including the Center's stores). The remaining percentage is estimated to be spent outside the market area.

(3) Capture rate estimates for La Costa Town Square are based on the ratio of the La Costa Town Square projected sales as a proportion of projected sales in the entire market area (including La Costa Town Square projected sales) plus a premium of 4.0 percent to reflect the fact that the project's stores will be new.

(4) Comprises demand available for capture by existing retailers or other new retailers.

(5) Since there are no auto dealer/supply retailers planned for the Center or in the cumulative projects, the capture rates and demand analyses are not calculated for the category.

Exhibit 13
Maximum Potential Recaptured Market Area Leakage
La Costa Town Square Shopping Center
2012 (\$ 000's)

Retail Category	2012 Spending Leakage (1)	La Costa Town Square Capture Rate (2)	Maximum Potential Recaptured Leakage
Apparel	(\$53,046)	32%	(\$16,975)
General Merchandise	(\$177,160)	6%	(\$10,630)
Food Stores	\$0	0%	\$0
Eating and Drinking	(\$46,470)	10%	(\$4,647)
Home Furnishings	\$0	0%	\$0
Building Materials	(\$97,873)	0%	\$0
Auto Dealers/Supplies	(\$754,109)	NA	NA
Service Stations	(\$141,909)	9%	(\$12,772)
Other	\$0	0%	\$0
Totals	(\$1,270,567)		(\$45,023)

Source: CBRE Consulting.

(1) See Exhibit 10 for leakage figures. Note that attraction categories are shown as "\$0".

(2) Estimated capture rate of La Costa Town Square of leakage to retailers outside the market area. If there is no leakage in a given category or the category is not part of the retail mix at the La Costa Town Square, then the capture rate is zero percent.

Exhibit 14
Intermediary Potential Sales Impacts
La Costa Town Square Shopping Center
2012 (\$ 000's)

Retail Category	La Costa Town Square Total Sales (1)	La Costa Town Square Market Area Sales (2)	Demand Captured By Household Growth (3)	Total Recaptured Leakage (4)	Intermediary Potential Sales Diversion
	A	B	C	D	E = B+C+D
Apparel	\$31,087	\$27,978	(\$3,742)	(\$16,975)	\$7,261
General Merchandise	\$4,532	\$4,079	(\$2,180)	(\$1,898)	\$0
Food Stores	\$36,191	\$32,572	(\$4,824)	\$0	\$27,748
Eating and Drinking	\$19,830	\$17,847	(\$3,755)	(\$4,647)	\$9,446
Home Furnishings	\$7,204	\$6,484	(\$1,228)	\$0	\$5,255
Building Materials	\$0	\$0	\$0	\$0	\$0
Auto Dealers/Supplies	\$0	\$0	\$0	\$0	\$0
Service Stations	\$6,260	\$5,634	(\$2,089)	(\$3,545)	\$0
Other	\$10,696	\$9,626	(\$1,690)	\$0	\$7,937
Total (6)	\$115,800	\$104,220	(\$19,508)	(\$27,066)	\$57,647

Source: CBRE Consulting.

(1) See Exhibit 2.

(2) CBRE Consulting estimates that 10 percent of sales at La Costa Town Square will be attributed to consumers residing outside of the market area. This estimate is based on industry standards for defining shopping center market areas, the location of the La Costa Town Square, its proximity to major highways, and the local area's general position as a retail attraction market.

(3) See Exhibit 12.

(4) See Exhibit 13.

Exhibit 15
Potential Sales Diversions
La Costa Town Square Shopping Center
2012 (\$ 000's)

Retail Category	Intermediary Potential Sales Diversion (1) A	Balance of Demand for Other Market Area Retailers (2) B	Potential Sales Diversions (3) C=A-B	2012 Sales Base (4) D	Percent of Sales Diverted from Existing Retailers E=C/D
Apparel	\$7,261	\$7,953	\$0	\$98,426	0.00%
General Merchandise	\$0	\$34,158	\$0	\$293,484	0.00%
Food Stores	\$27,748	\$39,031	\$0	\$553,898	0.00%
Eating and Drinking	\$9,446	\$33,791	\$0	\$348,638	0.00%
Home Furnishings	\$5,255	\$12,421	\$0	\$152,445	0.00%
Building Materials	\$0	\$27,944	\$0	\$238,207	0.00%
Auto Dealers/Supplies	\$0	NA	\$0	\$167,239	0.00%
Service Stations	\$0	\$21,118	\$0	\$137,184	0.00%
Other	\$7,937	\$22,448	\$0	\$363,373	0.00%
Total	\$57,647	\$198,863	\$0	\$2,352,893	0.00%

Source: CBRE Consulting.

(1) See Exhibit 14 and note that only categories with potential sales diversions are presented.

(2) See Exhibit 12.

(3) If demand available for other market area retailers is greater than the intermediary potential sales diversions (i.e., if column B is greater than column A), then there are no potential sales diversions (i.e., column C is zero)

(4) See Exhibit 10.

Exhibit 16
Estimated New Household Retail Demand in the Market Area (Annual)
2012 Dollars
2012 - 2017

Market Area	2012 Market Area Per Household Spending (1)	Incremental Households and Additional Sales in Millions of Dollars				
		2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017
<i>Increase in Number of Households per Period (2)</i>		602	607	611	615	620
<i>Estimated Additional Sales (3)</i>						
Apparel Stores	\$2,066	\$1.2	\$1.3	\$1.3	\$1.3	\$1.3
General Merchandise Stores	\$6,420	\$3.9	\$3.9	\$3.9	\$4.0	\$4.0
Food Stores	\$5,596	\$3.4	\$3.4	\$3.4	\$3.4	\$3.5
Eating and Drinking Places	\$5,390	\$3.2	\$3.3	\$3.3	\$3.3	\$3.3
Home Furnishings and Appliances	\$1,742	\$1.0	\$1.1	\$1.1	\$1.1	\$1.1
Building Materials	\$4,585	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8
Auto Dealers and Auto Suppliers	\$12,569	\$7.6	\$7.6	\$7.7	\$7.7	\$7.8
Service Stations	\$3,807	\$2.3	\$2.3	\$2.3	\$2.3	\$2.4
Other Retail Stores	<u>\$4,620</u>	<u>\$2.8</u>	<u>\$2.8</u>	<u>\$2.8</u>	<u>\$2.8</u>	<u>\$2.9</u>
TOTAL	\$46,796	\$28.2	\$28.4	\$28.6	\$28.8	\$29.0

Source: CBRE Consulting.

Notes:

(1) The 2012 per household spending figures for the Market Area are presented in Exhibit 11.

(2) See Exhibit 4 for projections of market area households, which are estimated as 73,304 in 2006, 82,011 in 2012, and 89,332 in 2017. Household figures for interim years between 2012 and 2017 are estimated according to the calculated annual growth rate of 0.73 percent.

(3) Additional sales per period are calculated by multiplying the 2012 per household spending figures for each retail category by the number of new households per period.

Exhibit 17
Estimated New Household Retail Demand in the Market Area (Cumulative)
2012 Dollars
2012 - 2017

Market Area	2012 Market Area Per Household Spending (1)	Incremental Households and Additional Sales in Millions of Dollars				
		2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017
<i>Increase in Number of Households per Period (2)</i>		602	1,209	1,820	2,435	3,055
<i>Estimated Additional Sales (3)</i>						
Apparel Stores	\$2,066	\$1.2	\$2.5	\$3.8	\$5.0	\$6.3
General Merchandise Stores	\$6,420	\$3.9	\$7.8	\$11.7	\$15.6	\$19.6
Food Stores	\$5,596	\$3.4	\$6.8	\$10.2	\$13.6	\$17.1
Eating and Drinking Places	\$5,390	\$3.2	\$6.5	\$9.8	\$13.1	\$16.5
Home Furnishings and Appliances	\$1,742	\$1.0	\$2.1	\$3.2	\$4.2	\$5.3
Building Materials	\$4,585	\$2.8	\$5.5	\$8.3	\$11.2	\$14.0
Auto Dealers and Auto Suppliers	\$12,569	\$7.6	\$15.2	\$22.9	\$30.6	\$38.4
Service Stations	\$3,807	\$2.3	\$4.6	\$6.9	\$9.3	\$11.6
Other Retail Stores	<u>\$4,620</u>	<u>\$2.8</u>	<u>\$5.6</u>	<u>\$8.4</u>	<u>\$11.3</u>	<u>\$14.1</u>
TOTAL	\$46,796	\$28.2	\$56.6	\$85.2	\$114.0	\$143.0

Source: CBRE Consulting.

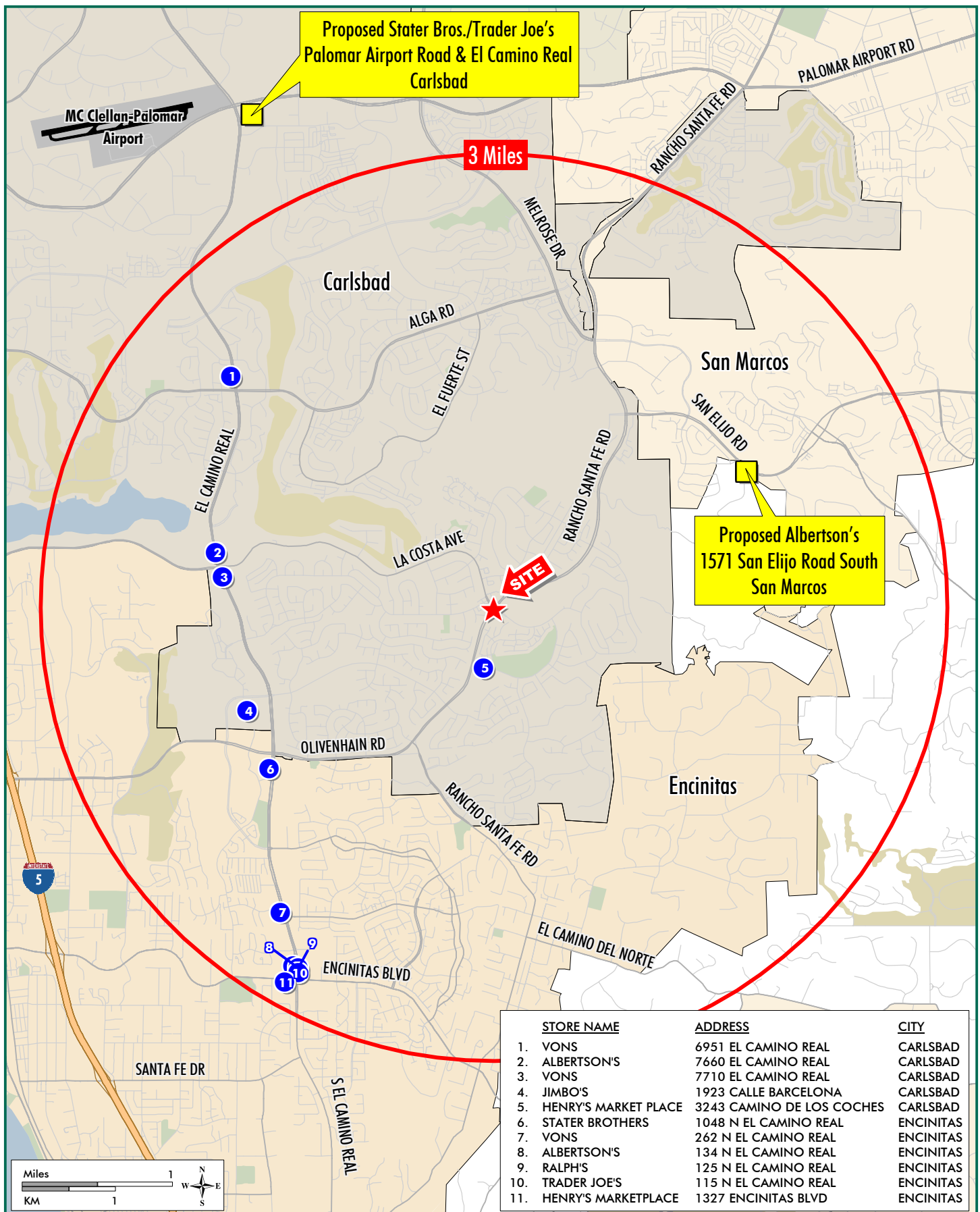
Notes:

(1) The 2012 per household spending figures for the Market Area are presented in Exhibit 11.

(2) The cumulative total increase in the number of market area households using a base year of 2012. Annual increases in the number of households are presented in Exhibit 16.

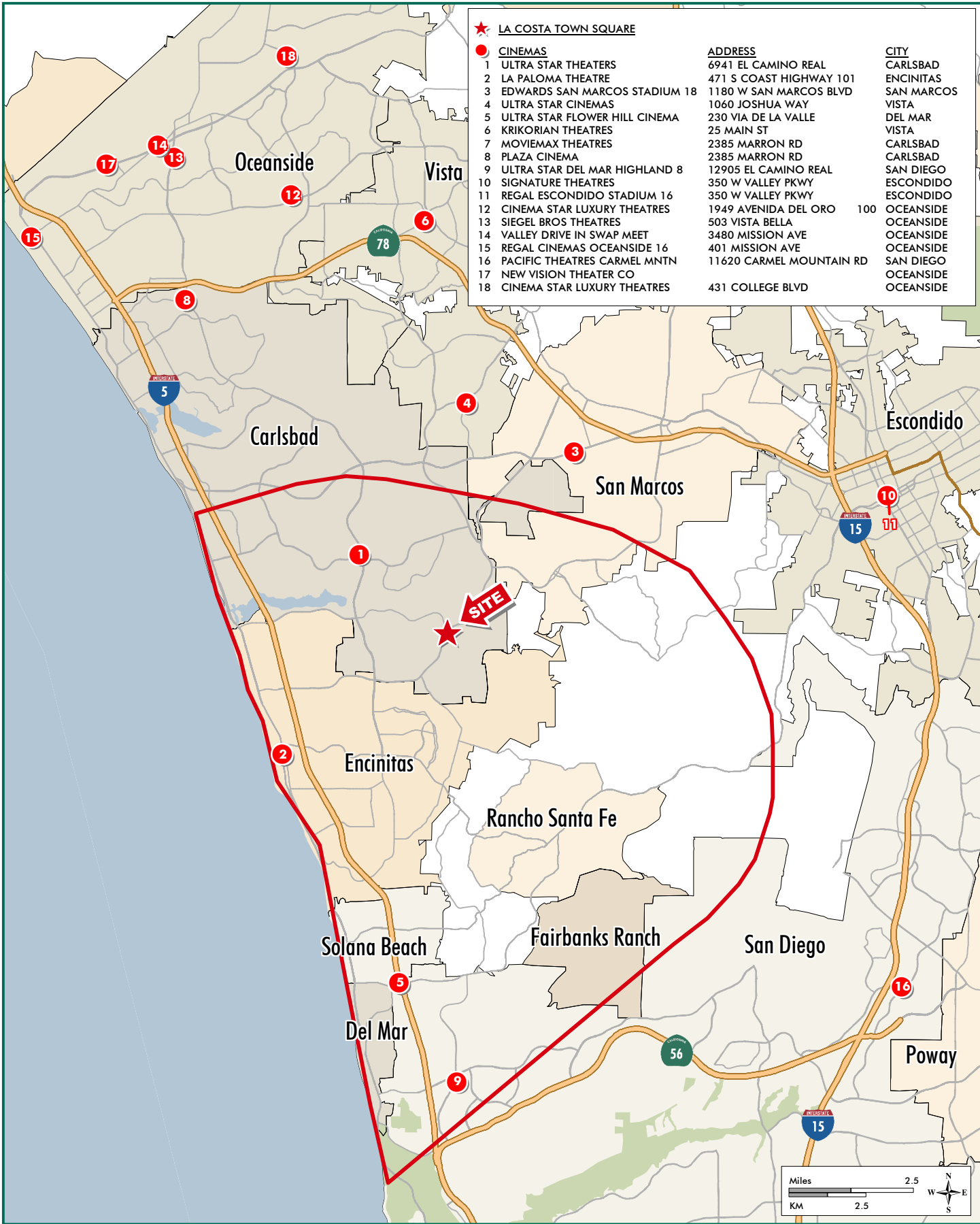
(3) Additional sales per period are calculated by multiplying the 2012 per household spending figures for each retail category by the cumulative number of new households per period.

Exhibit 18: Market Area Grocery Stores Within 3 Miles



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Exhibit 19: Competitive Cinema Locations in the Market Area and Environs



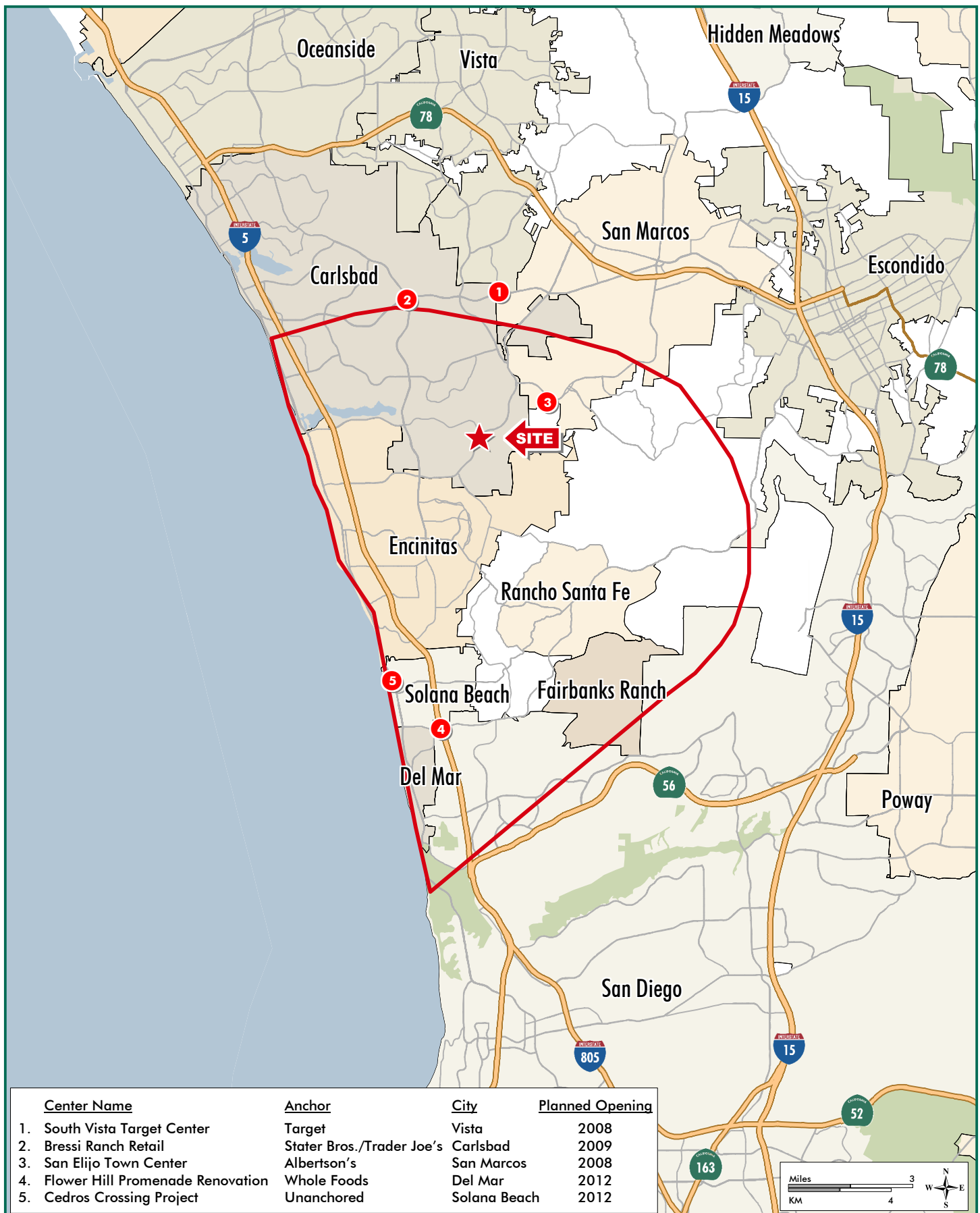
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Exhibit 20
Other Potential Competitive Retail Developments
In and Around the Market Area

Development Description	Location	Net New Retail Sq. Ft.	Targeted Opening Date	Status and other Background
South Vista Target Center	Vista, CA: Northeast corner of Business Park Drive and Poinsettia Avenue	143,929	Year-end 2008	This development lies just outside of the La Costa Town Square market area. The Target is to "shadow anchor" adjacent shop space, meaning that while the other retailers will benefit from the presence of the Target, they are not owned by the same entity. About 7,000 square feet of shop space is still available for lease, though the specific use or type of tenant(s) that will eventually occupy the space is not yet known.
Bressi Ranch Center	Carlsbad, CA: Southeast corner of Palomar Airport Road and El Camino Real	120,000	N/A	Grading on this Stater Bros.- and Trader Joe's-anchored center is underway as of March 2008. The center will likely be finished by year-end 2008. Almost half of the space has already been leased; approximately 65,000 square feet of the space is still available. Asking rates range from \$4.00 to \$4.50 per square foot per month on a triple net basis. The center will largely serve the upscale, master-planned community of Bressi Ranch.
San Elijo Town Center	San Marcos, CA: San Elijo Road and Twin Oaks Valley Road	90,000	June 2008	Construction is underway on the Albertson's-anchored town center that will consist of nine other buildings and a gas station. The retail component of the mixed-use town center development will have an upscale Italian restaurant, a bakery, deli, and salon, in addition to an array of other shop retailers.
Flower Hill Promenade Renovation	Del Mar, CA: Northeast corner of Via de la Valle and Interstate 5	52,000	January 2012	The developer, Protea Properties, has been negotiating with the City and local community groups since 2005 to increase the size of the existing 108,000-square-foot center by adding a combination of retail, office, and storage uses to the site. The most recent plan available involves a net increase of 74,000 square feet, including a 30,000-square-foot Whole Foods store and approximately 8,000 square feet of additional shop retailers. A 14,000-square-foot Ultra Star cinema at the center is also likely to be replaced with other retail as part of the renovation. The remaining new square footage is planned for non-retail uses. The developers have not been asked to submit an EIR and are planning to commence construction in 2010.
Cedros Crossing Project	Solana Beach, CA: Highway 101 and Cliff Street	24,700	January 2012	The EIR for the redevelopment of the existing 319-space surface parking lot and vacant land at the Solana Beach Train Station was certified on January 17, 2008. The project is a mixed-use, transit-oriented project combining public plazas, residential units, offices, a repertory theatre, and a 24,700-square-foot restaurant/retail/visitor's center.

Sources: Local government officials and real estate; city web sites; news articles; Protea Properties; and CBRE Consulting

Exhibit 21: Map of Other Potential Major Retail Centers



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Exhibit 22
Sales Estimates for Other Major Retail Developments
2012 Sales Projections
In 2007 and 2012 Dollars

Pipeline Projects/Stores	Planned Square Feet	Sales per Square Foot 2007	Sales per Square Foot 2012 (1)	Sales per Grocery Store 2007 (2)	Estimated Total Sales 2012 (3)
South Vista Target Center					
Target	136,929	\$318 (4)	\$372		\$50,941,257
Shop Space	7,000	\$214 (5)	\$250		\$1,747,777
	<u>143,929</u>				<u>\$52,689,034</u>
Bressi Ranch Center					
Stater Brothers	44,000			\$20,720,732	\$24,213,524
Trader Joe's	12,000			\$16,490,169	\$19,269,837
Shop Space	64,000	\$214 (5)	\$250		\$15,979,674
Subtotal	<u>120,000</u>				<u>\$59,463,035</u>
San Elijo Town Center					
Albertson's	50,000			\$18,681,329	\$21,830,349
Shop Space	40,000	\$214 (5)	\$250		\$9,987,296
	<u>90,000</u>				<u>\$31,817,646</u>
Flower Hill Promenade Renovation					
Whole Foods	30,000			\$23,453,926	\$27,407,440
Shop Space	22,000	\$214 (5)	\$250		\$5,493,013
Subtotal	<u>52,000</u>				<u>\$32,900,453</u>
Cedros Crossing Project					
Shop Space	24,700	\$363 (6)	\$424		\$10,484,164
Subtotal	<u>24,700</u>				<u>\$10,484,164</u>
Total	196,700				\$134,665,298

Sources: U.S. Bureau of Labor Statistics, CPI Urban Western Consumers; Retail MAXIM, "Perspectives on Retail Real Estate and Finance," September-August 2006; "The Super 50: Grocery's Leading Chains by Supermarket Sales Volume," Progressive Grocer, May 2008; and CBRE Consulting.

Notes:

(1) Projections for 2012 are adjusted for inflation from 2007 baseline figures. Inflation is estimated from the Consumer Price Index (CPI) for western urban consumers at 3.83 percent annually for 2007-2008 and an estimated 3.0 percent annual rate for 2008-2012.

(2) Sales per Grocery Store are based on 2007 Annual Commodity Volume (ACV) for each supermarket chain divided by the number of related stores. Both sets of information are reported by Progressive Grocer in May 2008. The analysis assumes that each proposed grocery store will perform at the same level as an average supermarket within its parent company.

(3) For non-grocery stores, the 2012 sales estimate is based on the Planned Square Feet of retail space multiplied by the 2012 Sales per Square Foot estimate. For Grocery Stores, the 2007 store sales estimates are inflated to 2012 dollars based on an annual inflation rate of 3.83 percent for 2007-2008 and 3.0 percent annually for 2008-2012.

(4) Sales per square foot for Target as provided by Retail MAXIM for 2005 and adjusted for annual inflation for 2005-2007.

(5) Sales per square foot is based on the average for other inline retail in grocery-anchored neighborhood shopping centers as provided by Retail MAXIM for 2005 and adjusted for annual inflation for 2005-2007.

(6) Sales per square foot is based on the average for neighborhood shopping centers as provided by Retail MAXIM and adjusted for annual inflation for 2005-2007.

Exhibit 23
Market Area Sales Estimates for Other Major Retail Developments
2012 Sales Projections (\$000's)

Pipeline Projects/Stores	Total Sales 2012	Estimated Sales Percentage Generated by the Market Area (1)	Competitive Sales Generated by the Market Area, 2012
South Vista Target Center			
Target	\$50,941	25%	\$12,735
Shop Space	\$1,748	25%	\$437
	<u>\$52,689</u>		<u>\$13,172</u>
Bressi Ranch Center			
Stater Brothers	\$24,214	50%	\$12,107
Trader Joe's	\$19,270	50%	\$9,635
Shop Space	\$15,980	50%	\$7,990
Subtotal	<u>\$59,463</u>		<u>\$29,732</u>
San Elijo Town Center			
Albertson's	\$21,830	50%	\$10,915
Shop Space	\$9,987	50%	\$4,994
	<u>\$31,818</u>		<u>\$15,909</u>
Cedros Crossing Project			
Shop Space	\$10,484	90%	\$9,436
Subtotal	<u>\$10,484</u>		<u>\$9,436</u>
Flower Hill Promenade Renovation			
Whole Foods	\$27,407	90%	\$24,667
Shop Space	\$5,493	90%	\$4,944
Subtotal	<u>\$32,900</u>		<u>\$29,610</u>
Total	\$134,665		\$84,686

Sources: Exhibit 22; and CBRE Consulting.

Notes:

(1) Reflects the share of the market area that is estimated to coincide with the La Costa Town Square shopping center market area. The analysis assumes that 90 percent of the La Costa Town Square shopping center's sales will be generated by the market area so a 90 percent share is the highest level assumed.

Exhibit 24
Estimated Market Area Sales by Retail Category
Other Major Retail Developments
2012 Dollars (\$000's)

Pipeline Projects and Stores	Competitive Sales Generated by the Market Area, 2012	Apparel	General Merchandise	Food Stores	Eating & Drinking Places	Home Furnishings & Appliances	Other Retail
Carlsbad Target Center							
Target (1)	\$12,735		\$10,825	\$1,910			
Shop Space (2)	\$437						\$437
Bressi Ranch Retail							
Stater Brothers	\$12,107			\$12,107			
Trader Joe's	\$9,635			\$9,635			
Shop Space (2)	\$7,990	\$799	\$2,397		\$2,397		\$2,397
San Elijo Town Center							
Albertson's	\$10,915			\$10,915			
Shop Space (2)	\$4,994	\$499	\$1,498		\$1,498		\$1,498
Cedros Crossing Project							
Shop Space (2)	\$9,436				\$6,133		\$3,303
Flower Hill Promenade Renovation (2)							
Whole Foods	\$24,667			\$24,667			
Shop Space (3)	\$4,944	\$1,331		\$190	\$190	\$570	\$2,662
Total	\$84,686	\$2,629	\$3,895	\$57,514	\$10,218	\$570	\$9,860

Sources: Exhibit 23; and CBRE Consulting.

Notes:

(1) The distribution of the Target store sales is a CBRE Consulting estimate based on other analysis the firm has done involving large general merchandise stores.

(2) For new developments in which the shop space tenants are unknown, CBRE Consulting estimated the retail mix based on the project description and the type of retailers that are commonly found at similar centers.

(3) Based on statements from Flower Hill's leasing agents, the tenant mix to occupy the expansion space will be similarly distributed across the retail types currently at the center. CBRE Consulting used the current list of retailers to estimate the related percentage of inline retail.

Exhibit 25
Potential Sales Diversions from Cumulative Projects
La Costa Town Square Center Market Area
2012 (\$ 000's)

Retail Category	Competitive Market Area Sales, Other Major Projects (1)	La Costa Town Square Center Sales Generated by the Market Area (2)	Market Area Sales for Cumulative Projects	Estimated Capture of New HH Demand (3)	Available Leakage 2012 (4)	Recaptured Leakage Rate (5)	Potential Recaptured Leakage	Intermediary Impacts from Cumulative Projects
	A	B	C = A + B	D	E	F	H = F * G	I = C + E + H
Apparel	\$2,629	\$27,978	\$30,607	(\$11,695)	(\$53,046)	35%	(\$18,566)	\$346
General Merchandise	\$3,895	\$4,079	\$7,974	(\$36,338)	(\$177,160)	7%	(\$12,401)	\$0
Food Stores	\$57,514	\$32,572	\$90,086	(\$43,855)	\$0	NA	\$0	\$46,231
Eating and Drinking	\$10,218	\$17,847	\$28,066	(\$37,546)	(\$46,470)	12%	(\$5,576)	\$0
Home Furnishings	\$570	\$6,484	\$7,054	(\$13,649)	\$0	NA	\$0	\$0
Building Materials	\$0	\$0	\$0	(\$27,944)	(\$97,873)	4%	\$0	\$0
Auto Dealers/Auto Supplies	NA	\$0	NA	NA	NA	NA	NA	NA
Service Stations	\$0	\$5,634	\$5,634	(\$23,206)	(\$141,909)	8%	(\$11,353)	\$0
Other	\$9,860	\$9,626	\$19,486	(\$24,137)	\$0	9%	\$0	\$0
Total	\$84,686	\$104,220	\$188,907	(\$218,371)	(\$516,458)		(\$47,896)	\$46,578

Source: CBRE Consulting.

(1) See Exhibit 24.

(2) See Exhibits 2 and 14.

(3) See Exhibit 12.

(4) See Exhibit 13 for details. Note that figures are presented as negative numbers and that the Auto Dealers/Auto Supplies figures are excluded from the totals.

(5) Estimated capture rates by retailers in the cumulative projects of the available leakage of sales occurring outside of the market area. Capture rate estimates for La Costa Town Square shopping center and other retail projects are based on the ratio of the projected sales for these centers as a proportion of projected sales in the entire market area plus a premium of 4.0 percent to reflect the fact that the projects' stores will be new.

Exhibit 26**Cumulative Project Diversions As a Percentage of Market Area Sales Base
2012 (\$ 000's)**

Retail Category	Intermediary Potential Sales Diversion (1)	2012 Sales Base (2)	Percent of Sales Diverted from Existing Retailers
	A	B	C = A/B
Apparel	\$346	\$98,426	0.4%
General Merchandise	\$0	\$293,484	0.0%
Food Stores	\$46,231	\$553,898	8.3%
Eating and Drinking	\$0	\$348,638	0.0%
Home Furnishings	\$0	\$152,445	0.0%
Building Materials	\$0	\$238,207	0.0%
Auto Dealers/Supplies	NA	\$167,239	NA
Service Stations	\$0	\$137,184	0.0%
Other	\$0	\$363,373	0.0%
Total	\$46,578	\$2,352,893	2.0%

Source: CBRE Consulting.

(1) See Exhibit 25.

(2) See Exhibit 10.

APPENDIX B

Appendix B

Translation of Claritas Retail Sales Categories to BOE Categories

Sample Claritas Report for Carlsbad (1)

2007 Dollars (\$Millions)

Claritas Sales Category	Carlsbad (Retail Sales)	BOE Category
Motor Vehicle & Parts Dealers	\$16.9	
- Automotive Dealers	\$3.6	Auto Dealers and Auto Supplies
- Other Motor Vehicle Dealers	\$6.1	
- Automotive Parts, Accessories, & Tire Stores	\$7.2	
Furniture & Home Furnishings Stores	\$21.5	
- Furniture Stores	\$4.7	Home Furnishings and Appliances
- Home Furnishing Stores	\$16.8	
Electronics & Appliance Stores	\$24.8	
- Appliance, Television, and Other Electronics	\$5.8	
- Household Appliances Stores	\$0.1	Other Retail Stores
- Radio Television and Other Electronics	\$5.7	
- Computer and Software Stores	\$18.9	
- Camera & Photographic Equipment Stores	\$0.0	
Building Material & Garden Equipment & Supply	\$8.0	
- Building Material & Supply Dealers	\$7.4	Building Materials and Farm Implements
- Home Centers	\$0.0	
- Paint and Wallpaper Stores	\$1.2	
- Hardware Stores	\$0.3	
- Other Building Materials Dealers	\$5.8	
- Building Materials, Lumberyards	\$2.0	
- Lawn and Garden Equipment and Supplies	\$0.6	
- Outdoor Power Equipment Stores	\$0.0	
- Nursery and Garden Centers	\$0.6	
Food & Beverage Stores	\$117.6	
- Grocery Stores	\$107.5	Food Stores
- Supermarkets and Other Grocery Stores	\$106.3	
- Convenience Stores	\$1.1	
- Speciality Food Stores	\$5.9	
- Beer, Wine, & Liquor Stores	\$4.2	
Health & Personal Care Stores	\$52.1	
- Pharmacies and Drug Stores	\$30.0	Other Retail Stores
- Cosmetics, Beauty Supplies and Perfume Stores	\$2.3	
- Optical Goods Stores	\$0.0	
- Other Health and Personal Care Stores	\$19.8	
Gasoline Stations	\$9.7	
- Gasoline Stations with Convenience Stores	\$2.5	Service Stations
- Other Gasoline Stations	\$7.2	
Clothing & Clothing Accessories Stores	\$28.2	
- Clothing Stores	\$21.3	Apparel Stores
- Men's Clothing Stores	\$0.6	
- Women's Clothing Stores	\$16.6	
- Children's and Infants' Clothing Stores	\$1.9	
- Family Clothing Stores	\$1.5	
- Clothing Accessories Stores	\$0.2	
- Other Clothing Stores	\$0.5	
- Shoe Stores	\$5.5	
- Jewelry, Luggage, & Leather Goods Stores	\$1.5	
- Jewelry Stores	\$1.5	
- Luggage, & Leather Goods Stores	\$0.0	

Appendix B
Translation of Claritas Retail Sales Categories to BOE Categories
Sample Claritas Report for Carlsbad (1)
2007 Dollars (\$Millions)

Claritas Sales Category	Carlsbad (Retail Sales)	BOE Category
Sporting Goods, Hobby, Book, & Music Stores	\$16.7	
- Sporting Goods, Hobby, & Musical Instrumen	\$8.8	
- Sporting Goods Stores	\$8.2	
- Hobby, Toys and Games Stores	\$0.7	
- Sew, Needlework, Piece Goods Stores	\$0.0	
- Musical Instrument and Supplies Stores	\$0.0	Other Retail Stores
- Book, Periodical, & Music Stores	\$7.9	
- Book Stores and News Dealers	\$7.9	
- Book Stores	\$7.7	
- News Dealers and Newsstands	\$0.1	
- Prerecorded Tape, Compact Disc, & Record	\$0.0	
General Merchandise Stores	\$130.1	
- Department Stores excluding Leased Dept Sto	\$0.0	General Merchandise Stores
- Other General Merchandise Stores	\$130.1	
- Warehouse Clubs and Super Stores	\$129.3	
- All Other General Merchandise Stores	\$0.8	
Miscellaneous Store Retailers	\$9.6	
- Florists	\$1.4	
- Office Supplies, Stationery, & Gift Stores	\$2.7	
- Office Supplies and Stationery Stores	\$0.2	Other Retail Stores
- Gift, Novelty, and Souvenir Stores	\$2.5	
- Used Merchandise Stores	\$0.9	
- Other Miscellaneous Store Retailers	\$4.6	
Non-store Retailers	\$19.1	
- Electronic Shopping and Mail-order Houses	\$7.9	Other Retail Stores
- Vending Machine Operators	\$0.0	
- Direct Selling Establishments	\$11.2	
Foodservice & Drinking Places	\$45.8	
- Full-Service Restaurants	\$14.9	Eating and Drinking Places
- Limited-service Eating Places	\$28.0	
- Special Foodservices	\$2.9	
- Drinking Places - Alcoholic Beverages	\$0.0	
TOTAL RETAIL STORES	\$500.1	

Sources: Claritas; and CBRE Consulting.

Notes:

(1) CBRE Consulting classified retail sales estimates from from Claritas according to the BOE Categories presented in the right column. The data shown is an example for the City of Carlsbad.

**ADDENDUM TO LA COSTA TOWN SQUARE, CARLSBAD, CALIFORNIA
ECONOMIC IMPACT AND URBAN DECAY ANALYSIS
FEBRUARY 10, 2009**

CBRE Consulting, Inc. ("CBRE Consulting") conducted market and financial analysis related to the likely economic impact and urban decay potential of the proposed La Costa Town Square shopping center (the "Center"), which is summarized in its report ("Urban Decay Analysis") dated October 8, 2008. This study, which was based primarily on research conducted in May 2008 and subsequent estimates associated with an approximately 10 percent reduction in the Center's proposed size, found that the development of the Center was unlikely to result in the environmental impact known as urban decay. The key elements of this finding were the general strength of the local retail market, the projections of potential diverted sales, and the market area's history of successfully re-positioning retail spaces when vacancies have occurred.

Given the current national recession, CBRE Consulting reviewed its market analysis and researched the performance of the local retail market to identify issues that could potentially affect its conclusions. CBRE Consulting believes it is helpful to look at the recession from two perspectives relative to the Center's potential to contribute to or cause urban decay. One is to consider what is happening and the likely impacts separate from the proposal to develop the Center. The other is to consider whether the development of Center will so exacerbate any negative economic conditions in the local retail sector so as to be the cause of urban decay.

THE CURRENT ENVIRONMENT

Daily news stories report falling retail sales nationally. December 2008 retail sales excluding auto sales and gas station sales were down 1.5 percent from the preceding month.¹ This was the sixth consecutive monthly drop. Some major retailers, including Circuit City and Linens'n Things, have closed stores and filed for bankruptcy while other chains have announced they are pulling back on expansion plans in the face of the current economic recession. It is reasonable to expect that a decline in retail sales of the magnitude seen will result in more store closures nationally. In the northern San Diego County area, retailers are no doubt being impacted in a similar way. Some retailers will be able to weather the decline in sales, while others will not. Regardless of whether the Center opens as planned, there are likely to be some store closures in the market area defined in the Urban Decay Analysis and, because of depressed economic conditions, the resulting vacancies will likely take longer to re-tenant (i.e., find replacement tenants) than would be the case under more normal conditions.

While the economy has declined nationally and regionally, San Diego County and the cities of Carlsbad and Encinitas are still performing better than many parts of California and the rest of the United States. For example:

¹ *Wall Street Journal*, "Retail Sales Tumbled in December," January 14, 2009.

- The unemployment rates for the cities of Carlsbad and Encinitas, sections of which are each included in the Center's market area, increased to 4.8 percent and 5.2 percent, respectively by December 2008. For comparison, San Diego County's unemployment grew to 7.4 percent and the statewide rate increased to 9.1 percent by year-end 2008, based on the most recent data published on the State of California Economic Development Department web site.²
- San Diego County's retail vacancy rate increased from 3.0 percent in Q3 2008 to 3.4 percent in Q4 2008 according to the CB Richard Ellis Research. For reference, vacancy rates of 5.0 percent or lower are generally considered healthy by commercial real estate brokers. The CB Richard Ellis report also states that: "The San Diego County retail vacancy rate is unlikely to make a dramatic change over the next several quarters, as there remains demand from national retailers, and very little new retail product delivering to the market."³
- The vacancy rates for the three CB Richard Ellis submarkets that overlap most with the Center's market area – namely, Carlsbad/La Costa, Cardiff/Encinitas/Leucadia, and Del Mar/Solana Beach/Rancho Santa Fe – were also estimated at 3.0 percent or lower by year-end 2008, despite several larger store closures.⁴
- Development of the Bressi Ranch Center (also known as Bressi Village), which is located near the boundary of the La Costa Town Square market area in Carlsbad, has continued through the recent downturn. Stater Brothers and Trader Joe's will anchor the 120,000-square-foot shopping area with a planned opening during Q1 2009.

Recent increases in vacancy, both in the market area cities and the county as a whole, have been driven by retail bankruptcies and store consolidations. Within the market area, CBRE Consulting identified several larger stores that either have closed or are scheduled to close shortly, such as a Linens'n Things outlet, a Circuit City store, a Von's grocery store, an Albertson's supermarket, and a Home Depot Expo store. Beyond the market area, the closure of several Mervyns department stores, including four that surround the market area, will contribute additional vacancy in San Diego County; however, Kohls department store and the Forever 21 chain are reportedly in the process of acquiring leases for at least two of the former Mervyns locations in the county and are expected to re-open outlets in those retail spaces.⁵

POTENTIAL FOR URBAN DECAY RESULTING FROM LA COSTA TOWN SQUARE SHOPPING CENTER

Before considering how the Center might affect these kinds of conditions, it is useful to focus on what constitutes the *environmental* impact known as urban decay. The leading court case on the subject, *Bakersfield Citizens for Local Control v. City of Bakersfield* (2004) 124 Cal.App.4th 1184, 1204, described the phenomenon as "a chain reaction of store closures and long-term vacancies, ultimately destroying existing neighborhoods and leaving decaying shells in their wake." The court also discussed prior case law that addressed the potential for large retail

² See <http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/areaselection.asp?tablename=labforce> for more background.

³ Market View, *San Diego Retail, Fourth Quarter 2008* published by CB Richard Ellis Research, p.1.

⁴ *Ibid.*, pp. 2-4.

⁵ "Kohls, Forever 21 Acquire 46 Mervyns Stores," *San Diego Union Tribune*, December 13, 2008.

projects to cause “physical deterioration of [a] downtown area” or “a general deterioration of [a] downtown area.” (Id. at pp. 1206, 1207). When looking at the phenomenon of urban decay, it is also helpful to note economic impacts that do not constitute urban decay. For example, a vacant building is not urban decay, even if the building were to be vacant over a relatively long time. Similarly, even a number of empty storefronts will not constitute urban decay. Based on the preceding descriptions regarding urban decay, therefore, the Urban Decay Analysis examined whether there was sufficient market demand to support the project, without affecting existing retailers so severely such as to lead to a downward spiral toward decay.

Given the state of the economy, with potential slowing of demographic growth and reduced retail spending, the projections included in the Urban Decay Analysis may not prevail in the short term. Although recent economic events have of course tempered our optimism about how robust the local economy will be in the near term, this does not translate into an altered conclusion with respect to urban decay.

The recent store closures and resulting vacancies are occurring independently of the development of the Center, which is not expected to open until 2011 at the earliest. Moreover, the loss of these stores creates opportunities for new retailers to capture local demand as economic conditions improve. For example, the proposed national department store at the Center will be well-positioned to attract shoppers who might otherwise have traveled to a former Mervyns or a Linens ‘n Things store. Similarly, the new supermarket at the Center can be expected to attract some of the local residents who previously had shopped at the older Von’s and Albertson’s stores that have closed. Consequently, the projections of diverted sales in the Urban Decay Analysis, particularly in the Food Stores category, are likely to be overstated.

In the Urban Decay Analysis, CBRE Consulting also identified several shopping areas where landlords had successfully redeveloped older retail spaces to accommodate new tenants. This history of re-investing in existing locations appears to be due to the topography and the density of the area, which limit the options for new development along major roads. The current increase in vacancies gives landlords another incentive to re-position their aging properties. For instance, the Von’s store that closed at 7710 El Camino was identified in the Urban Decay Analysis as “especially outdated, based on its size (30,800 square feet), general condition (e.g., older fixtures, floors, lighting, etc.), and the lack of amenities offered at most newer grocery stores.” In addition, in February 2009 an official with the City of Carlsbad Economic Development Department told CBRE Consulting that the Von’s store and the Albertson’s in Encinitas that went out of business had been underperforming before the downturn, primarily because the two retail spaces were outdated. By contrast, grocery-anchored centers that are newer or that have been renovated are performing well, according to the official. This is why developments such as Bressi Ranch Center have attracted new retail tenants despite the recession. As mentioned above, the re-tenanting of larger vacant spaces may take longer as a result of the current national and local downturn. However, the demographics of the area, including higher than average per capita incomes, relatively low unemployment rates, and the projected household growth are expected to increase local demand and ultimately draw new businesses to the area as the economy improves.

SUMMARY

Although economic conditions have changed since the middle of 2008 when most of the Urban Decay Analysis was completed, the recent increase in store vacancies is independent of the planned development of La Costa Town Square shopping center. Moreover, the closure of large retailers such as Mervyns and two older supermarkets is likely to provide new demand for the proposed Center while reducing the potential impacts of diverted sales. These factors, coupled with the finding that the market area has maintained many of the advantages that make it attractive to developers and new tenants, lead CBRE Consulting to reaffirm its conclusion that the development of the Center is not expected to result in urban decay in the City of Carlsbad or the surrounding market area.

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

CBRE Consulting has made extensive efforts to confirm the accuracy and timeliness of the information contained in the Urban Decay Analysis and this Addendum. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although CBRE Consulting believes all information in these analyses is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the Urban Decay Analysis. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared. Neither all nor any part of the contents of this study shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of CBRE Consulting.

